Efficacy of Alternative Poverty Alleviation Programmes in Bangladesh

Momtaz Uddin Ahmed

Centre on Integrated Rural Development for Asia and the Pacific

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FOREWORD

In Bangladesh, explicit focus on poverty eradication in the development agenda requires formulation and implementation of sustainable anti-poverty strategies. The availability of reliable and timely information on the state and processes of poverty assists the policy makers in understanding poverty in its manifold dimensions and in identifying the causalities. The above requires institutional mechanism to (i) monitor poverty using multidimensional indicators; (ii) analyze micro impact of macroeconomic and structural adjustment policies; (iii) provide feedback to the policy makers in designing effective macro and poverty reduction policies.

CIRDAP, with assistance from the International Development Research Centre (IDRC), Canada and Canadian International Development Agency (CIDA) initiated a project on `Monitoring Adjustment and Poverty (MAP) in Bangladesh to address the above issues. Under the project, a number of `focus studies' were conducted on poverty related issues. These studies generate information on the nature and conduits through which macro-policies create impact at the micro level along with providing relevant information on poverty.

The present study on `Efficacy of Alternative Poverty Alleviation Programmes in Bangladesh' investigates the performance of the transfer and credit mode intervention systems for alleviating poverty in Bangladesh, particularly in terms of nature and range of activities initiated under various programmes and their impact on the poor. Among others, the study examines the distributional impact of the interventions at the household level and effect on the status of household poverty, cost effectiveness and sustainability of such programmes, compare the implementation mechanism and the efficacy of the various approaches in terms of both resource mobilisation, outputs and local participation. The conclusions of the study highlight the specific policy concerns needed to generate appropriate response in further replication and linkages of these programmes at both micro and macro level.

I hope the study will be useful to the policy makers and experts in the area. I would like to thank Dr. Momtaz Uddin Ahmed, Professor of Economics, University of Dhaka, Bangladesh, the researcher of the study, for his excellent work. I also thank Mustafa K. Mujeri, Ex-Director Research, CIRDAP who guided and co-ordinated the project and other staff of CIRDAP Research Division for their efforts in successfully completing the study. I express my gratitude to Dr. Rohinton Medhora, Senior Specialist of IDRC for his active interest in the project and to IDRC and CIDA for providing financial support for the project.

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Dr. Mya Maung
Director General

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Acronyms and Abbreviations

ADP	Annual Development Programme
ASA	Association of Social Advancement
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BIDS	Bangladesh Institute of Development Studies
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
CDP	Credit Development Programme
CIDA	Canadian International Development Agency
CIRDAP	Centre on Integrated Rural Development for Asia and the Pacific
CMCs	CIRDAP Member Countries
FFEP	Food for Education Programme
FFW	Food for Works
Ford F.	Ford Foundation
GB	Grameen Bank
GO	Government Organisation
H/H	Household
HYV	High Yielding Variety
IDRC	International Development Research Centre
IFAD	International Fund For Agricultural Development
IRDP	Integrated Rural Development Programme
MAP	Monitoring Adjustment and Poverty
MES	Monitoring Evaluation System
MFIs	Micro Finance Institutions
NFA	Non-Farm Activities
NGOs	Non Governmental Organizations
NORAD	Norwegian Aid Agency
PKSF	Pally Karma Shahayak Foundation
POs	Partner Organisations
RDP	Rural Development Programme
RMP	Rural Maintenance Programme
RPPs	Rural Poor Projects
SDI	subsidy dependence index

SIDA	Swedish International Development Agency
TK	Taka – Bangladesh Currency
VGD	Vulnerable Group Development
WFP	World Food Programme
WFP	World Food Programme

Executive Summary

This study examines relative efficacy of various poverty alleviation efforts initiated and implement by Government (GO) as well as NGOs in Bangladesh, focussing on their relative programme outputs, impacts on poverty status, efficiency in resource use, employment, incomes and savings generation, and sustainability of the programmes. A combination of various quantitative as well as qualitative measures, such as socio-economic conditions of the programme participants, extent of coverage of the poor, programme costs and programme sustainability etc., have been used to indicate efficiency of the alternative poverty alleviation measures. A mix of both primary and secondary data have been used in analysing the relevant issues. In order to highlight the socio-economic impacts of the various programmes 'programme village' versus 'control village' and 'before and after' comparisons methods have been adopted using both primary and secondary sources of information collected through sample survey and review and analysis of published sources of data. The major findings of the study are the following:

(i) Commensurating the nature, extent and various dimensions of poverty in Bangladesh, a large variety of poverty alleviation efforts, categorized broadly as the 'transfer mode' and the 'credit mode' are being implemented by the Government and NGOs in Bangladesh. Besides targeted poverty alleviation programmes based on micro- credits and administered by both government and NGOs, a variety of safety net measures representing transfer mode and involving food and/or cash assistance through FFW, VGD and FFE are also administered by the Government.

(ii) NGOs in Bangladesh have earned recognition globally in terms of number, size and extent of operations. While some 20,000 NGOs are registered to date with the Department of Social Welfare, the effective NGOs are not as large. A global view of the magnitude of NGO coverage suggests that the MFIs are predominant agents of poverty alleviation in Bangladesh having an outreach of 14.08 million members. The estimated cumulative disbursement of loans stands at Tk. 3728 billion of which the estimated MFI share is Tk. 536 billion and the cumulative savings of both formal and informal sector is roughly around Tk. 315 billion. However, for analytical purposes, we have undertaken in-depth investigations of GB, BRAC, and BRDB's RD-12 poverty alleviation programmes, WFP assisted FFW programmes and the Government assisted FFEP programme to highlight the impact of safety net measures.

(iii)The micro-credit programmes administered by the various agencies and the MFIs have aimed at alleviating poverty by generating employment, augmenting productivity and

incomes and savings and raising the standard of living of the poor. The analysis of the socio-economic impacts of MFI interventions at the household levels in the programme villages and that in the control villages was carried to examine how the micro-credit interventions impacted on the lives and living standards of the programme participants vis-à-vis the non-participants.

(iv) The results obtained from the comparisons clearly indicate better socio-economic conditions and higher standards of living enjoyed by the participating households than by the non-participants. For example, there was a clear occupational shift in the programme villages towards self-employment from farm-employment, the relative proportions being respectively 74% in the programme villages compared to 51% in the control village. The important non-farm economic activities taken up by the respondents included trading, masonry, carpentry, fishing, boatmen, rickshaw-pulling and other services.

(v) The availability of credit provided the participating households access to inputs and services which in turn enabled them to earn average higher incomes i.e. Tk. 2500 per month from their various non-farm occupations compared to that (Tk. 1580.0) earned by the non-participants. The micro-credit intervention also infused savings habits among the poor with the BRDB participants saving the highest amount of Tk. 2751 per month, followed by the BRAC (Tk. 1677), WFP (Tk.1038) and GB (Tk. 490) participants compared to only Tk. 300.0 by the non-participants. Some of the programme participants also gained access to new assets such as land, machineries and equipment and other business assets through increased incomes and savings.

(vi) Not surprisingly, the access to higher incomes enabled the programme participants to spend more money on food than the control village participants to keep them nutritionally fit, work hard and produce more. The micro-credit intervention also created significant impacts on educational profile of the households, i.e. greater familiarity with alphabets, higher rate of schooling for children, overall higher investments made for education purposes (i.e. Tk. 4826 per household compared to only Tk. 2116 per household in the control villages).

(vii) More importantly, significantly high proportion of the programme village household owned hand pumps and used boiled water which gave them greater access to safe drinking water. In terms of possession of sanitary latrines, a significantly contrasting feature is also marked in that as against 70% of the programme participants only 6% of the control village households use the facility.

(viii) The assessment of the effects of the Government's safety net programmes (i.e. FFEP) reveals that the programme expanded steadily between 1993-94 and 1995-96 spreading to 1243 unions of the country, covering 16159 schools, benefiting 1416932 families and 2239805 students in terms of higher school enrollment and, greater attendance rate. However, the programme could not make any dent in respect of reducing the drop-out rate and the repeaters rates. Our survey findings reveal that the FFE programme intervention benefited the children of the poor households not only in terms of having greater exposure to schooling but also having access to seasonal employment opportunities, access to food and cash benefits and higher food consumption. More importantly, a comparative assessment of cost-effectiveness of FFEP and other food-based safety net programmes also revealed that FFEP is the most cost-effective of all the programmes.

(ix) The issue of programme sustainability of the MFI operations has been investigated through examining their financial efficiency by examining their income and operating cost structures, measuring cost of delivery of services, unit cost of coverage and break-even interests. The results have been mixed. For example, Grameen Bank (GB) was highly dependent on donations and Government allocations to the extent of 80% for its incomes till 1995. However, the interest income of GB increased from 10-20% in the earlier years to 60% in 1996. But its cost of delivery of services though declined from initial years till 1989, increased to a peak in 1996 suggesting that the MFI is not in a position to cover its costs by the interest incomes and its long-run financial viability remains questionable.

(x) In contrast, BRAC's operations exhibit relatively strong position in terms of cost of coverage and cost of delivery of services. Both cost of coverage and delivery of services shows a declining trend in the recent years indicating positive signs of long-term financial viability. However, the interest incomes appear to be inadequate to offset the administrative expenses associated with the delivery of credit.

(xi) In case of BRDB's RD-12 programme, the cost of delivery displays a positive sign and also being the lowest among the MFIs and thereby the most viable among the three in terms of cost efficiency.

(xii) The overall results of analyses of the programme sustainability suggest that the MFIs need to redesign their programmes to be able to cover their costs of operation through interest incomes received from the borrowers. While increase in the lending rate and improving the administrative efficiencies are the two available options, restructuring of the administrative style and mechanism to cut down costs and improve efficiency seems

to be the better option towards ensuring long-term viability and sustenance without being dependent on subsides as at present.

(xiii) While the programmes of the MFIs have made the poor bankable without collateral and impacted positively on the borrowers socio-economic conditions and human resources development in the programme areas, the programme intervention needs to be expanded significantly to increase coverage and reach the poorest of the poor. The programmes are thus replicable in other areas, subject to careful redesigning aimed at significant slash down of administrative overheads without adversely affecting the current low rate of default. This calls for serious research to scrutinize the size of loan, operational structure and efficiency, and most important of all, long-term financial viability of the future programmes in the new geographical locations. Further, an overriding concern of any such programme should be the coverage of the poorest of the poor and also the "missing middle" comprising the low-income farmers and the self-employed groups engaged in various non-farm activities who do not qualify either for MFI loans and/or for formal credits.

Chapter 1

INTRODUCTION

1.0 The Context

Faced with the dire need to rescue its population from pervasive poverty, successive governments in Bangladesh have been increasingly focusing on designing effective poverty alleviation policies, which underwent several structural shifts. The apparent failure of the 'trickle down' strategy and the multi-dimensionality associated with the process of poverty led to the growing recognition that the growth-oriented strategies need to be complemented by direct assault on poverty[1]. The advocates of independent/specific poverty alleviation programmes also reason that poverty alleviation is not only an outcome of the process of economic development but itself is also a process with positive spillover effects on the economic growth (BIDS 1996; CIRDAP, 1993; BIDS, 1990).

The traditional policy of poverty alleviation mostly relied upon the trickle down strategy. The strategy, in effect, was an untargeted intervention such as Green Revolution in agriculture and it was expected that new technology would create adequate employment and income earning activities to ameliorate the poverty situation. Besides, emphasis was put on the industry-led trickle down mechanism to promote economic growth in the modern sector in order to raise employment for the poor. The industry-led approach was used under the aegis of import substitution strategy and it was believed that enough employment could be created through use of labour intensive technology. The trickle down strategy, which provided subsidised inputs to promote economic growth, self-sufficiency in food production, and industrialisation, however, mostly helped the urban and rural elites and excluded the majority of the poor. Moreover, provision of subsidised credit, the prime poverty alleviation mechanism of many government sponsored programmes, achieved marginal success due to the fact that access to formal loans/bank credits involve high transaction costs and require collateral which the rural poor could hardly meet.

Against such backdrop, the late seventies and eighties saw several new developments. Firstly, there was an increased flow of aid to Bangladesh and much of it came as project aid, allocated for rural development intervention. Secondly, the transformation of IRDP into the Bangladesh Rural Development Board (BRDB), the launching of the Rural Poor Programmes

[1] Despite the shift in emphasis, the policies of the recent times, as the critics argue, mention very little about land distribution, lowering of ceiling, tenure improvement, and local level planning as strategies for reducing poverty and generating employment in the rural areas.

and the introduction of Rural Development Projects by the government contributed to the development of a new generation of area development projects that included components which were targeted towards rural poor.

The 1970s also saw the beginning of the NGO movement that shifted its locus from relief orientation to a more distinct target group approach, focusing on mobilisation of poor people into separate organisations through a process of conscientisation and non-formal education. The target group approach got an added boost with the emergence of the government sponsored Grameen Bank that placed growing importance on credit and promotion of income generating activities in the mobilisation process, a trend which gained more strength in the 1980s. By the end of 1980s, there was a sufficient body of experience (Grameen Bank, Proshika, BRAC, ASA, etc.) to prove that motivated and class-wise homogenous groups of poor people could make regular savings, manage credits and repay loans without collateral, and make decisions and undertake productive activities, with the help of the trained and dedicated staff of the facilitating organisations.

Encouraged by the success of aforementioned strategy to alleviate rural poverty, various national organizations, international agencies, NGOs and the government as well have reoriented their efforts in reducing poverty by initiating targeted programmes. Although various programmes of poverty alleviation are now being undertaken both by government and NGOs, these interventions can broadly be grouped into two major categories, e.g. 'the transfer mode' and 'the credit mode'. The transfer mode involves food and/or cash offered in exchange for work and training and is mainly run by government. At present, three such programmes in operation are Food for Works (FFW), Vulnerable Group Development Programme (VGD) and Food for Education (FFE). While short term food security is perceived as a major feature, these programmes are also attempted to address poverty through creation of rural infrastructure and augmenting incomes from traditional rural activities through access to markets and strengthening production and other linkages. These government programmes are often termed as safety net policies of the government as these attempts are envisaged to ensure fall back employment for the rural poor who may not access benefits of growth in the economy and other micro credit programmes of government and NGOs as well.

The credit mode, in general, provides highly supervised low-cost credit to the rural poor without any collateral, which in turn, generates income-earning activities. Another professed objective of this type of intervention is to bring rural women and other disadvantaged groups within the reach of the credit market, in order to engage themselves into productive ventures.

It is thus imperative that an in-depth study be undertaken to analyse relative efficacy of the major poverty alleviation programmes focussing on their relative programme outputs,

sustainability of the programmes' impacts on poverty status, efficiency in resource use and the degree of complementarity of various programmes and approaches.

1.2 Scope and Objectives of the Study

Considering the proliferation of various types of poverty alleviating programmes that are being currently undertaken by both the government and the NGOs, it is prudent to analyse the efficacy of these programmes in some details. In particular, it may be interesting to examine whether these programmes have a lasting effect on poverty and also whether these programmes themselves are sustainable. It is especially of great interest to probe into the ability of the programmes to continue to operate for the rural poor. On the one hand, these programmes can be sustainable, only if the benefits that the poor receive from these result in a sustainable reduction in poverty. On the other hand, these programmes can only sustain if they remain financially sound since these programmes use loanable funds from various sources to finance productive activities of the participants. It is against this background that the present study has been commissioned to pursue the following objectives.

(a) General:

- E evaluate the performance of the selected transfer and credit mode intervention systems for alleviating poverty in Bangladesh.

(b) Specific:

- Analyse the nature and range of activities initiated under various programmes and highlight their direct and indirect impact on the poor;
- Develop a methodology for evaluating distributional impact of the interventions at household level and effect on the status of household poverty, cost effectiveness and sustainability of such programmes;

- Compare the implementation mechanism and the efficacy of the various approaches in terms of both local resource mobilisation, programme outputs, local participation and programme sustainability;
- Examine the potentials of replication and linkages of these programmes at both micro and macro level.

1.3 Proposed Measures of Efficiency of Alternative Poverty Alleviation Programmes

A combination of measures, quantitative as well as qualitative, may be used to indicate efficiencies of alternative poverty alleviation programmes. In the present study, the following measures will be used to indicate efficiency of poverty alleviation programmes:

A). The cost of operation of various poverty alleviation programmes will be compared to assess their relative cost-effectiveness. The cost of operation of a programme will be defined as the sum of (I) administrative cost; (ii) loan default cost (if applicable), and (iii) cost of raising resources.

B). While examining the improvements in the socio-economic conditions of the programme beneficiaries as a result of programme intervention, efforts will be made to find out the relative efficiency of various programmes in covering the poorest of the poor.

C). In assessing the relative efficiency of various programmes, particular emphasis will be given to identify how programme participation affects socio-economic conditions of the participating households. Attempts will be made to underestand whether programme participation has led to increase in the literacy, skill development, savings generation, increased awareness, health consciousness etc. of the beneficiaries.

D). The dynamic issue of sustainability of the participants' welfare will be used as one of the major indicators of efficiency criteria. In this connection, data relating to income flow of the participants and savings generation capacity of the households will be analysed. The savings will be measured both in cash and in kind, such as cattle, land, better housing etc.

E). In assessing programme sustainability efforts will be made to evaluate whether the programme is self-sustainable. For any programme to be sustainable requires that its lending rate exceed the cost of operation per unit of the principal. More specifically, the programme should be able to make profits to cover its fund costs borrowed at commercial rate of interest. In this case, the programme will be viable if it can at least equalise the cost per Taka lent with the price (rate of interest) of capital borrowed. Because, reliance on subsidised resources can not be the permanent feature of a financially viable programme.

1.4 Data and Methodology

Given the scope and objectives of the study, we used a mix of both primary and secondary data. A considerable amount of information was gathered through literature survey and use of relevant (un)published sources. Nevertheless, given the purpose of the study, primary data was collected through sample surveys, based on structured questionnaires.

The sample survey was conducted in 5 programme villages, spread over five greater districts (i.e. Dhaka, Tangail, Noakhali, Rajshahi, Barisal), covering operations of Grameen Bank, BRAC, BRDB, FFW, and FFE. In addition, a control village was selected, keeping in mind similarities of land distribution, income and non-land asset holding, and occupation

structure between programme villages and control village. However, it was especially kept in mind that the control village must not have micro credit operations either by NGO i.e. or by any government agencies. The survey units are the rural households from the sample villages covered by micro credit programmes and from the control village without any programme intervention. While the choice of the sample villages was made jointly in consultation with the relevant stakeholders (i.e GB, BRAC, BRDB etc) the programme organizers seemed to be inclined towards providing us access to those villages which had better track records of programme administration by them.

In each programme (as well as the non-programme control village) village under both micro credit mode and transfer mode, we collected information from 35 households which gave us a total sample size of (35X6) 210 respondent households. The total sample size covered in the study has been in commensurate to the available time and resources.

1.5 Organisation of the Report

Following the introductory chapter, Chapter 2 provides an in-depth literature review, conceptualises poverty, discusses poverty profile and its trends in Bangladesh including characteristics of the poor and causes and consequences of poverty. This chapter also provides insights into the limitations of the previous studies carried out to evaluate the poverty alleviation programmes. The description of the selected poverty alleviation programmes which the present study analyses is given in Chapter 3. A comparison among different components of these programmes is also contained in this chapter. Welfare of the programme participants is the focus of the Chapter 4. How the programme interventions have impacted on the lives and living standards of the programme participants is discussed here in details. Special emphasis is placed on examining the sustainability of the welfare of the programme participants. Chapter 5 exclusively deals with various safety net programmes. In this chapter, the activities of the Food for Education and Food for Work programmes are highlighted to analyse the characteristics of the beneficiaries and efficacy of the targets set. Issues related to programme sustainability are covered in Chapter 6. An attempt is made here to compare the cost-effectiveness of various intervention schemes. The nature of resource mobilisation and utilisation of these resources in the programme are also highlighted here.

The final chapter contains the major findings of the study in summarised form and delineates the areas for further research.

A common disclaimer applies to most studies, especially the ones based on field surveys.To start with, it was not possible on our part to identify the trend of rise or decline in the poverty levels overtime due to lack of longitudinal data on poverty incidence in the survey areas. Time and resource constraints prohibited us from gathering time series data

from the field levels and recourse had therefore to be made on to the secondary sources of information. Second, the secondary/published sources of information used to estimate various indices of programme sustainability were based on data which might suffer from usual deficiencies. Thus, the results obtained from the various estimates in some cases may necessitate interpretation with caution.

Chapter - 2

POVERTY PROFILE OF BANGLADESH AND A REVIEW OF THE IMPACT ASSESSMENT STUDIES ON POVERTY ALLEVIATION PROGRAMMES

2.0 Introduction

An assessment of the poverty alleviation programmes needs to be preceded by addressing the questions related to the definition and measurement of poverty. The important questions that generally confront an assessment study are: Who are the poor? What are the important dimensions of poverty? How many are they? How do we measure them? Has poverty declined? Has inequality increased? What are the characteristics of poor households? Where do the poor live?

The concept of poverty is heterogeneous, and the causes of poverty are complex.[2] Poverty is, however, now widely recognised in economics literature as a matter of deprivation, a failure to meet basic requirements for the sustenance of life. Thus, the evolving concept of poverty broadly refers to forms of economic, social and psychological deprivation occurring among people lacking sufficient ownership, control or access to resources for minimum required levels of living. The multidimensional problem of poverty involves income, consumption, nutrition, health, education, housing, crisis-coping capacity, insecurity, etc.

At the empirical level, the measurement of poverty involves: a) an indicator of well-being or welfare such as per capita expenditure; b) a threshold (the poverty line) to which each individual's welfare can be compared; and c) a poverty measure such as the headcount index which is the percentage of the population with the expenditure indicator below the threshold or poverty line. Differences in poverty estimates result from differences in the choices of the indicator, the threshold, or the poverty measures (Wodon, 1997).

2.1 Poverty Profile of Bangladesh

The Debate on Poverty Measurement

There exists a considerable disagreement over the number of the poor in Bangladesh, mostly emanating from the methodological differences in counting the poor. Most researchers in the

[2] A large volume of literature has piled up over time on the poverty which deals with various aspects of the subject. Despite continuous search for arriving at a comprehensive and generally acceptable definition and measurement of the concept, it remains elusive even to-day and various new measures and dimensions of poverty continue to evolve.

field, however, agree that the poverty has declined up to the early 1980's, but remained interlocked into the debate over persistence of poverty afterwards, i.e. during the period of early 1990's.

Table 2.1 shows that Rahman and Haque (1988) came up with a different conclusion on the number of poor from those of Muqtada (1986), Islam and Khan (1986), and Osmany and Rahman (1986). Rahman and Haque (1988) assert that poverty declined, from mid 1970's to mid 1980's, owing to growth in per capita income and a relatively stable income distribution.

Later, Osmany and Khan (1990) and Osmany (1990) argued that extreme povery increased in the second half of the 1980's. In a rebutal, Chowdhury (1992) questioned the conclusions reached by Osmany (1990) and the ways of reaching such conclusions. The debates between Chowdhury (1993) and Osmany (1993a, 1993b) continued and remained unresolved. Meanwhile, Ravallion (1990) noted that differences in the conclusions were the results of the differences in the methods employed and questioned the comparability over time of the surveys for the early 1980's.

Table 2.1: Percentages of population below the poverty line

Source		*1973/74*	*1976/77*	*1977/78*	*1978/79*	*1981/82*	*1983/84*	*1985/86*	*1988/89*	*1991/92*	*1994*	*1995/96*
Alamgir (197	Rural	84.0	--	--	--	--	--	--	--	--	--	--
Urban	76.0	--	--	--	--	--	--	--	--	--	-	
Muqtada (1986)	Rural	59.9	68.2	--	68.7	--	--	--	--	--	--	--
	Urban	37.8	40.3	--	40.8	--	--	--	--	--	--	--
Islam & Khan (1986)	Rural	47.7	62.3	--	--	--	--	--	--	--	--	--
	Urban	32.3	37.4	--	--	--	--	--	--	--	--	--
Osmani & Rahman (1986)	Rural	65.3	--	--	--	79.1	49.8	47.1	--	--	--	--
	Urban	62.0	--	--	--	50.7	39.5	29.1	--	--	--	--
Rahman & Haque (1988)	Rural	55.7	61.1	67.9	--	--	--	--	--	--	--	--
	Urban	--	--	--	--	48.4	--	--	--	--	--	--
Ravallion (1990)	Rural	--	--	--	--	--	53.8	45.9	49.7	52.9	--	--
	Urban	--	--	--	--	--	40.9	30.8	35.9	33.3	--	--
	National	--	--	--	--	--	52.3	43.9	47.8	47.6	--	--
BBS (1991/92, 1995, 1997)	Urban	--	--	--	--	73.8	61.9	54.7	47.8	47.6	43.5	47.1
	Rural	--	--	--	--	66.0	67.7	62.6	47.6	46.7	--	49.7
	National	--	--	--	--	--	62.6	55.7	47.8	47.5	--	47.5

- - not available

Source: Chowdhury and Shahabuddin (1990); BBS (Various years)

The debate on the poverty trend between late 1980's and early 1990's is marked by the suggestion that poverty has increased, a finding at odds with official estimates. There are three strands of studies based upon different sources of information. The first group of studies, based on the grouped (tabulated) data, published by the national statistical office, Bangladesh Bureau of Statistics (BBS), report an increase of poverty in both rural and urban areas in the second half of 1980's and in the early 1990's (Khundker, Mahmud, Sen, and Ahmad, 1994; Hossain and Sen, 1992; Ravallion and Sen, 1996). Based on a small-scale

survey conducted by the Bangladesh Institute of Development Studies (BIDS), Rahman and Hossain (1995) and Rahman (1994) show an increase in poverty, followed by a decrease between the period of 1990 and 1994. But a BBS (1996) report on poverty in rural area suggests an increase in poverty between 1994 and 1996. The debate concerning poverty incidence thus remains inconclusive.

The Incidence, Depth, and Severity of Poverty

The incidence, depth and severity of poverty are reported in Table 2.2. These alternative measures of poverty, shown in the Table are--the head count index ($P_{0,}$ measures the incidence of poverty), poverty gap index ($P_{1,}$ measures the depth of poverty), and squared poverty gap index ($P_{2,}$ measures the severity of poverty). The poverty gap estimates how far the poor are on average below the poverty line as a proportion of that line and for the non-poor the distance is zero.

The New Poverty Measure: Cost of Basic Needs Method

The national statistics office dropped the food energy intake method and adopted the cost of basic needs method, though it retained the direct calorie intake method for comparison with the previous estimates. The cost of basic needs method is based on the estimation that meets predetermined basic needs, which are held constant from year to year and across space and groups (World Bank, 1998). Table 2.3 shows that 36 per cent of the country's population was very poor and 53 per cent was moderate poor in 1995-95. It also states that the incidence of poverty has declined as measured by both the upper and lower poverty lines. The BBS estimates claim that poverty incidence was relatively stable between 1983-84 to 1991-92, and then experienced a significant decrease in 1995-96. It also reveals that the drop in poverty in recent years was higher in urban than in the rural areas.

Table 2.2: Headcount, poverty gap and squared poverty gap measures of poverty, 1973/74 to 1995/96

Measures	*Source*	*1973/74*		*1981/82*		*1983/84*		*1985/86*		*1988/89*		*1991/92*		*1995/96*	
		Rural	*Urban*	*Rural*	*Urban*	*Rural*	*Urban*	*Rural*	*Urban*	*Rural*	*Urban*	*Rural*	*Urban*	*Rural*	*Urban*
Head-count	Ravallion (1990)	--	--	72.7	62.3	42.3	54.6	34.8	43.7	--	--	--	--	--	--
Index, P(O)	BIDS (1992)	71.3	--	65.3	--	50.0	--	41.3	--	43.8	--	--	--	--	--
	Sen (1993)	--	63.2	--	48.4	--	42.6	--	30.6	--	33.4	--	--	--	--
	Ravallion & Sen (1994)	--	--	--	--	53.8	40.9	45.9	30.8	49.7	35.9	52.9	33.6	--	--
	WB (1998) & BBS[a] (1997)	--	--	--	--	61.9	67.7	54.7	62.6	47.8	47.6	47.6	46.7	47.1	49.7
Poverty Gap,	Ravallion (1990)	--	--	24.5	22.2	10.7	17.5	7.2	12.3	--	--	--	--	--	--
P(1)	BIDS (1992)	25.6	--	20.2	--	13.2	--	9.2	--	10.8	--	--	--	--	--
	Sen (1993)	--	21.1	--	14.9	--	12.1	--	7.3	--	7.7	--	--	--	--
	Ravallion & Sen (1994)	--	--	--	--	15.0	11.4	10.9	7.3	13.1	8.7	14.6	8.4	--	--
	WB (1998) & BBS[a] (1997)	--	--	--	--	16.83	14.26	12.50	10.85	16.01	11.06	18.06	12.00	15.40	9.19
Squared	Ravallion (1990)	--	--	10.6	10.3	4.0	7.5	2.2	4.7	--	--	--	--	--	--
Poverty Gap,	BIDS (1992)	11.8	--	8.1	--	4.9	--	2.9	--	3.7	--	--	--	--	--
P(2)	Sen (1993)	--	9.5	--	6.2	--	4.7	--	2.4	--	2.4	--	--	--	--
	Ravallion & Sen (1994)	--	--	--	--	5.9	4.4	3.6	2.5	4.8	2.8	5.6	2.8	--	--
	WB (1998) & BBS[a] (1997)	--	--	--	--	6.72	5.78	4.27	3.81	6.07	3.83	7.15	4.43	5.74	3.44

Note: [a] Based on cost of basic needs method;

Source: Sen and Islam (1993), Hussain and Sen (1993), Ravallion and Sen (1994), World Bank (1998).

Table 2.3: Headcount Indices of poverty with the cost of basic needs method, 1983-84 to 1995-96

(Percentage of population below the poverty line)

	Hard-core Poor (Lower Poverty Line)					*Moderate Poor (Upper Poverty Line)*				
	1983/84	*1985/86*	*1988/89*	*1991/92*	*1995/96*	*1983/84*	*1985/86*	*1988/89*	*1991/92*	*1995/96*
National	40.91	33.77	41.32	42.69	35.55	58.50	51.73	57.13	58.84	53.08
Rural	42.62	36.01	44.30	45.95	39.76	59.61	53.14	59.18	61.19	56.65
Urban	28.03	19.90	21.99	23.29	14.32	50.15	42.92	43.88	44.87	35.04

Source: BBS (1997), World Bank (1998)

Characteristics of Rural Poor

Bangladesh is predominantly rural; of the 118 million people, over 80 per cent live in rural areas. The available estimates also confirm that poverty is largely rural[3]. Table 2.4 illustrates the differences in categories such as demographic characteristics and education among extremely poor, poor, and non-poor households. The poor households have a larger number of children below 10 years of age, fewer members in the income-earning age group and a higher child-women ratio than the non-poor. The poor have larger number of illiterate adult and lesser number of students in age group of 6-15.

Table 2.4: Characteristics of rural poor and non-poor households

Variables	*Extremely Poor*		*Poor*		*Non-Poor*	
	1987/88	*1994*	*1987/88*	*1994*	*1987/88*	*1994*
Demographic Characteristics						
Family Size	6.5	5.3	6.0	5.4	5.9	5.3
Age of household head	42.0	41.0	41.0	41.0	43.0	42.0
Family members (%)						
Age below 10 yrs	34.6	38.3	31.6	33.9	24.2	27.5
Males above 10 yrs	33.3	29.2	35.0	31.2	42.7	37.1
Adult males (16+)	24.1	23.8	26.8	25.6	33.4	30.3
Child women ratio	71.7	90.0	69.2	64.1	56.9	54.6
Education (%)						
Students in age groups 6-15	--	51.4	--	50.5	--	53.8
Male	52.8	28.3	63.0	22.5	70.0	29.7
Female	43.0	23.1	56.5	28.1	61.8	24.1
Illiterate adult	85.5	71.9	63.6	68.7	47.0	61.5
Literate adult	9.7	2.9	14.4	4.3	24.7	9.6
Land and Technology						
Per capita owned land	1.0	0.8	1.1	0.4	2.2	2.3
Per capita cultivated land	1.6	0.5	1.9	0.3	2.7	1.8
Per cent area under tenancy	23.1	--	25.0	--	21.5	--
Per cent under HYV rice	30.9	--	37.1	--	45.1	--
Percent area under irrigation	24.2	--	26.0	--	35.1	--

Source: Hussain et. al. (1992); BBS (1994).

[3] Though urban poverty is on increase in the recent years, poverty is still by an large rural phenomenon in most Asian countries (Ahmed M.U. 1994).

Poverty and Inequality

The income inequality has increased nationally and within the rural and urban sectors (Table 2.5). Inequality is higher in urban than in rural areas and has increased over time in both sectors, especially between 1991-92 and 1995-96. Urban inequality has increased much more than rural inequality.

Table 2.5: Gini indices of inequality, 1983-84 to 1995-96

	Normalisation by lower poverty lines					***Normalisation by upper poverty lines***				
	1983/84	***1985/86***	***1988/89***	***1991/92***	***1995/96***	***1983/84***	***1985/86***	***1988/89***	***1991/92***	***1995/96***
Gini index										
National	25.53	25.66	27.94	27.15	31.01	25.38	24.73	27.02	25.92	29.34
Rural	24.33	23.80	25.96	25.06	26.43	24.62	23.58	25.71	24.34	26.47
Urban	29.46	29.87	31.78	31.09	36.03	29.31	29.34	31.35	30.68	35.28
Decomposition										
Within group	24.93	24.64	26.74	25.93	28.02	25.17	24.38	26.46	25.25	27.93
Stratification	-0.29	-0.54	-0.79	-0.84	-1.80	-0.02	-0.01	-0.19	-0.27	-0.52
Between group	0.89	1.56	1.99	2.06	4.79	0.23	0.36	0.75	0.94	1.93

Note: The between group component measures the inequality between urban and rural areas, while the within group component measures the inequality within urban and rural areas. Stratification is a measure of overlap between urban and rural areas in the distribution of consumption. The measures of per capita consumption used to compute the Gini index are normalised by the cost of basic needs poverty lines (lower and upper) in order to account for difference in costs of living between geographical areas.

Source: World Bank (1998).

Decomposition of the national Gini coefficient by sector indicates that the increase in national Gini was not only due to rising inequality within sector, but also to rising inequality between the urban and rural sectors. The within sector component of the decomposition increased substantially between 1991-92 and 1995-96.

Table 2.6: Elasticity of Poverty Measures with respect to Growth and Inequality, 1983-84 to 1995-96

Measures	***Lower Poverty line***			***Upper Poverty line***		
	Net impact of growth	***Impact of growth controlling for inequality***	***Impact of inequality controlling for growth***	***Net impact of growth***	***Impact of growth controlling for inequality***	***Impact of inequality controlling for growth***
Head-cot	-1.98	-2.42	1.28	-1.29	-1.43	0.52
Povertgap	-2.67	-3.47	2.30	-2.17	-2.57	1.49
Squared Poverty gap	-3.30	-4.39	3.12	-2.85	-3.44	2.18

Note: These estimates use a panel of poverty measures at the regional level. The net impact of growth on poverty is the impact after netting out the impact of the increase in inequality on poverty.

Source : World Bank (1998).

2.2. Public Expenditure, Safety Net Programmes, NGO Programmes

It is believed that effective public spending can reduce poverty. According to World Bank (1998) social spending in real terms increased from less than Taka eight billion in 1989-90 to Taka 28.54 billion in 1995-96 in constant 1995-96 prices. Real education expenditure has risen the most, both in absolute term and relative terms, from Taka 3.15 billion in 1989-90 to Taka 15.88 billion in 195-96. Public health spending has witnessed almost five folds increase, from Taka 1.37 billion in 1989 to Taka 5.85 billion in 1995-96. Education and health together represented 76.14 per cent of ADP social spending in 1995-96. Overall, the share of ADP contributions to education and health has more than doubled since 1989-90, from 10 to 24 per cent.

Government Safety Net Programmes

The safety net programmes of the government serve both transfer payment and human capital accumulation. The three biggest programmes are Food for Work, which provides wheat in exchange for work in rural infrastructure projects, Food for Education which initially provided wheat now provides wheat and rice to poor children in return for regular primary school attendance and Vulnerable Group Development provides food grain and training to disadvantaged women. Test relief is similar programme to support activities like cleaning ponds and bushes and making minor repairs to rural roads, schools, mosques, madrashas. Table 2.7 shows that Food for Work is by far the largest programme, but the fastest growing programme is food for education, which began in 1993-94 in only 79 selected rural villages and subsequently spread to 237 villages.

Table 2.7: Food Grain Distribution under Government Programmes

(thousand tonnes)

Programme	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
Wheat total	604	834	253	773	999	1077
FFW	420	512	164	424	493	468
FFE	-	-	-	79	168	237
VGD	139	204	76	167	182	172
Test relief	32	94	3	71	92	88
Others	13	24	10	32	64	112
Rice total	194	91	365	71	66	70
Grain total	798	925	618	844	1065	1147

Source: World Food Programme, quoted in World Bank (1998)

NGO Programmes and Microcredit

By now, NGOs of Bangladesh have attained recognition in international arena, in terms of mandate, size and orientation. The sector witnessed a remarkable growth which has not remained limited only to large internationally known NGOs. Some 20,000 NGOs have registered to date with the Department of Social Welfare. Of these, the number of active NGOs are small. The NGO Affairs Bureau, charged with registering foreign-funded NGOs, registered 1185 NGOs by November, 1997 (World Bank, 1998). Table 2.8 shows the cumulative foreign-funded projects and the amounts released to the NGOs. One would note that the cumulative disbursement increased 10 times between 1990-91 to 1996-97.

Table 2.8: Foreign-funded NGO Projects and Amounts released to NGOs, 1991-98

Period	*Number of projects*		*US $ Amounts approved*		*US $ Amounts released*	
	New	*Cumulative*	*New*	*Cumulative*	*New*	*Cumulative*
1990-91	464	472	158.54	158.91	106.60	112.03
1991-92	549	1021	287.11	446.02	121.64	233.67
1992-93	626	1647	399.88	845.91	195.71	429.38
1993-94	581	2228	315.02	1160.93	171.01	600.38
1994-95	579	2807	440.69	1601.62	209.50	809.89
1995-96	702	3509	366.81	1968.43	259.30	1069.19
1996-97	746	4255	246.50	2138.31	250.14	1277.72
Till Nov.,97	324	4579	72.31	2083.53	84.79	1288.57

Source: NGO Affairs Bureau, quoted in World Bank (1998).

The generation of self-employment in non-farm activities is advanced as a way for reducing poverty. The poor is constrained in such employment opportunity by lack of financial resources and necessary human capital. The access to formal credit market by the poor has been restrained as commercial banks, in effect, shy away from the assetless, and their operating procedures have a bias towards well-off and vocal segments of the rural society. Given this backdrop, the microfinance programmes of Grameen Bank and other NGOs lend to groups of poor borrowers in which each group members receive a loan in sequence. No collateral is required in this system of joint liability venture. The Grameen Bank had 2.06 million micrcredit clients in 1996, mostly women, and BRAC, Proshika, and ASA had 1.84, 1.30, and 0.57 million, respectively. This puts the size of these organisations at par with the Bangladesh Rural Development Board, the government agency that provides microcredit. According to its own estimates, BRDB has so far disbursed TK.8500 million in micro credit to the poor for income and employment generation opportunities through its 9 poverty alleviation projects spread all over Bangladesh. There are at present 57000 primary co-operatives with 1575000 members(of whom 60% are women)who accumulated TK 950 million as their own savings. A global view of the magnitude of NGO coverage in terms of

various indicators suggests clearly that the MFIs are predominant agents of poverty alleviation in Bangladesh and thus deserves necessary attention from the researchers and policy makers. According to CDF (Credit Development Forum), a forum of NGOs in Bangladesh which compiles and publishes studies on MFIs in Bangladesh, the formal and semi-formal (MFIs) sectors have at present an outreach of 14.08 million members throughout Bangladesh of which 9.85 million belong to the MFIs. The cumulative loan disbursement volume stands at Tk. 3728 billion of which the MFIs' share is estimated to be Tk. 536 billion. And the cumulative savings of the members including formal and semi-formal sectors is around Tk. 315 billion.

2.3 Impact Assessment

In a review of the studies on assessment of the impact of microcredit, spreading over early eighties to recent years, Rahman (1998) finds that most of the studies used project comparison as their methodology. Table- 2.9 provides a summary of the methodologies of some impact assessment studies. Some of the studies use opinion of borrowers, history of borrowers, and qualitative techniques.

Table 2.9: A Summary of the Methodology of Some Impact Assessment Studies

Source	*Organisation covered*	*Methodology*	*Sample size*
Hossain (1986)	GB	Project control comparison	613
Rahman (1986)	GB	Project control comparison	393
Hossain (1988)	GB	Project control comparison & before-after comparison	240
BIDS (1990)	BRDB-RDP,BRDB-KSS, RESP, RDRS-RWP,BRAC, Saptagram, URDEP, Swanirvar, RDRS_CP, SEDPW	Project control comparison	900
ASA (1992)	ASA	Opinion of borrowers	1200
ASA (1993)	ASA	Opinion of borrowers	200
Olofsson (1993)	GB	History of borrowers	40
Gibbons & Todd (1993)	GB	Project control compatrison	80
Alamgir (1974)	Pos, GB, BRAC	Comparison of Pos, GB and BRAC	460
Pitt &Khandker (1995)	GB, BRAC, BRDB	Project control comparison	1800
IMEC, PK (1990)	Proshika	Project control comparison	1800
Rahman (1996)	Eight Pos of PKSF	Borrowers with various number of loans and PO members waiting for loan	960
Mustafa et. Al. (1996)	BRAC	Project control comparison; comparison between long term borrowers & new borrowers; comparison between above & below threshold level of credit	2125
Mahmud (1996)	BRAC, ICDDR,B	Comparison among four types of households: BRAC only, ICDDRB only, both, no programme	3833
Zohir (1990)	Swanirvar	Comparison of credit and non-credit SV villages 7 control villages	400
Sculer & Hashemi et. Al. (1995, 1996, 1997)	GB/BRAC	Qualitative study for 3 yrs in 6 villages 7 nationally reprsentative sample	1225

Source: Rahman (1998).

Rahman (1988) in her review records certain positive impacts, on the basis of agreement by most studies, despite their differences in methodology, sample size, and affiliations. According to her review, microcreit has led to increase in (i) income among borrowers, (ii) saving, investment, and asset associated with increase in income, (iii) consumption pattern, emanating from rise in income, (iv) expenditure on human capital, and (v) labour force participation, greater access to income and a greater decision making power of women. She

also records areas as lack of success, which include: lack of scope for profitable activities in some regions, low rate of returns to labour for activities usually preferred by women, lack of success in the use of microcredit due to the adverse demographic characteristics of the household. A summary of the findings of some impact assessment studies is presented in Table 2.10.

Table 2.10: A summary of the findings of some impact assessment studies

Source	*Economic Indicator*	*Type of Change*	*Social Indicator*	*Type of change*
Hossain (1985)	Return on investment Household income Employment	+ + +		
Hossain (1988)	Working capital Non agricultural investment Agricultural investment Land force participation rate Income	+ + ? + +	Social Investment	+
BIDS (1990)	Income Expenditure Employmenmt Land purchases	+ ? + +	Child-woman ratio School enrollment	? +
IMEC (1995)	Economic empowerment	+	Social empwerment	+
Pitt & Khandkar (1988)	Various laboursupply Men's labour supply Household expenditure	+ - +	Girl's schooling Contraceptive use Women's non-land asset	+ ? +
Rahman(1996)	Household consumption expenditure Human capital and fixed investment Employment	 + + +	No. of meals taken by men No. of meals taken by women School enrollment Attitude to education Pure drinking water, Adoption of family planning	? ? + ? +
Hashemi et. Al. (1996)			Women empowerment	+
Schuler et. Al. (1988)			Reduction of violence Contraceptive use	+ +

Source: Rahman (1998)

From the above analysis, it appears that positive impacts of micrcredit on poor households' social and economic situation are quite well established. Therefore, the research on microcredit needs not centre around the traditional impact assessment method which examines the impact on major economic or social variables, because there still remain many major unanswered questions which include:

- Are safety net and microcredit programmes sustainable?

- Does the lending rate exceed the cost of operation per unit of the principal? Does the cost per Taka lent equalise with the price (rate of interest) at the least?
- Does the microcredit address effectively the dynamic issue of sustainability of the participant's welfare?
- Do these programmes have efficacy in covering the poorest of the poor?
- Are these programmes operationally viable i.e. interest income covers direct costs of credit delivery?
- Are they financially, economically and institutionally viable?
- Should government be involved directly in handling the microcredit programmes?
- Do the public safety net programmes attain their objectives?
- Are they well targeted?
- Are they cost-effective?

In the subsequent chapters of the present study we make a modest attempt to provide answers to some of these questions, depending on the availability of relevant information.

Chapter 3

SALIENT FEATURES OF THE MICRO-CREDIT PROGRAMMES OF THE MICRO FINANCE INSTITUTIONS (MFIS) IN BANGLADESH

This chapter seeks to look at the nature, type and scope of credit programmes in order to set the scene for understanding the efficacy of these growing anti-poverty programmes. The chapter sets out with a brief analytical note, grounding the emergence of Micro Finance Institutions (MFIs). A sketch on the evolution of the micro credit programmes follows. The rest of the chapter is organised to delineate features such as organisation, target groups, coverage, borrower eligibility conditions, credit system features, etc.

3.1 The Analytical Setting for the Emergence of Micro Finance Institutions (MFIs)

Credit market imperfections asymmetrically impact the poor in rural areas through creating inefficiency in both production and consumption (Foster, 1995; Townsend, 1994). Against such backdrop, many developing countries had instituted government-directed financial institutions to provide low-priced credit to the poor, but much of the analyses on these institutions suggest that directed rural credit programmes have rarely created feasible alternatives to stave off credit market imperfections (Adams *et al*, 1983, 1984; Feder *et al*, 1989; Sacay and Randhawa 1995; von Pischke *et al*, 1983). From sustainability viewpoint, Stiglitz and Weiss (1981, 1983) argue that targeted credit may fail to reach the poor even if the price of the credit is right owing to asymmetric information and imperfect enforcement that afflict rural credit market. For making the system sustainable, Hoff and Stiglitz (1990) point out the necessity of financial institutions that could shun imperfect information and enforcement.

The essential feature of the MFIs are: *group-based lending, social collateral* and *peer pressure.* The group-based lending, footed in peer pressure for monitoring and contract enforcement, avoids adverse selection of borrowers and improves the prospects of loan recovery,(Stiglitz, 1990; Varian, 1990). Basely and Coate (1995) argue that 'social collateral,' being a powerful institution in the circumstances of peer pressure and squeeze of adverse selection, acts as deterrent to loan default. Group lending can help poor self-selecting programmes, making it a robust instrument of identification and targeting.

3.2 Evolution of MFIs in Bangladesh

Targeted credit programme was experimented in a pilot project in the village Jobra of Chittagong in August, 1976 to test the credit worthiness of the poor in absence of physical collateral. The central bank of the country, Bangladesh Bank facilitated Professor Yunu's work by arranging funding from the International Fund for Agricultural Development (IFAD). With the government holding of about 90 per cent of shares in paid-up capital, GB was operational as an independent bank on October 2, 1983 to work exclusively with the poor, defined as individuals owing less than 50 decimal of land .

With the growing success of GB, non-governmental organisations, popularly known as NGOs working towards poverty alleviation embarked upon credit programmes, with variance in delivery mechanisms, institutional set up and emphasis, by targeting the rural poor with particular emphasis on reaching out to the disadvantaged women and unemployed youth. It is said that more than 100 NGOs are at present engaged in micro credit operation, with an estimated yearly budget of more than Taka 4000 crores.

The country's largest NGO, the Bangladesh Rural Advancement Committee (BRAC), set up to help resettle households displaced during the country's war of independence in 1971, soon shifted its loci of programmes from rehabilitation to developing anti-poverty programmes, credit being one of the major instrument of intervention. BRAC's approach has been to combine lending with the delivery of organisational inputs, such as skills promotion and awareness building (Lovell, 1992). The BRAC's programme, Rural Development Programme (RDP), a packaged services to the poor incorporating awareness building, training, savings generation, credit disbursement and income generating activities.

The biggest public sector agency involved in anti-poverty programme is Bangladesh Rural development Board (BRDB), successor to Integrated Rural Development Programme (IRDP), which adopted two-tier cooperative system evolved by the BARD, Comilla, during the sixties. With its expansion in size and coverage, the role of BRDB evolved from that of promoting agricultural and rural development to concentrating on poverty alleviation programmes. The agency now has eight operating rural poor projects (RPPs). RD-12 is the largest project of RPP, with a budget of approximately TK 30 crore per annum.

3.3. The Grameen Bank

Coverage

The Grameen Bank (GB) came into inception as "Grameen Bank Project" in the Village Jobra of Chittagong in August, 1979 and in Tangail in November, 1979. Table 3.1 shows that

the number of GB branches has increased from 501 in 1988 to 1105 in 1997, representing an increase of 120 per cent. At the end of 1997, the GB coverage of programme villages increased from 10552 villages in 1988 to 37937 villages in 1997 showing a rise of 259.46 per cent. The number of GB members increased from 979 thousands in 1988 to 2057 thousands in 1997, up by 110.11 per cent. Accordingly, number of total centres jumped by 229.04 per cent in the corresponding period.

When membership and borrowers are disaggregated by gender, the same is reported. During 1988-1997period, women members increased by 385.96 per cent. During later periods especially in1996, there is drop in membership from that of the previous year. The membership declined from 1859094 in 1995 to 1441657 in 1996, down by 22.45 per cent. The rate of increase in membership in the later periods show a secular upward trend, though not a spectacular rise as witnessed in the intial years. Total number of borrowers rose from 272430 in 1988 to 1783960 in 1996, showing an increase of 554.83 per cent. The trend growth rate in the later periods is moderate .

Table 3.1: Year-wise Expansion of Grameen Bank by Branch, Villages, Centres, Groups, and Members with Gender disaggregation

Year	*Branch*	*Villages Covered*	*Centre Women*	*Centre Men*	*Total Centre*	*Groups (men)*	*Group Women*	*Total Group*	*Avrge Women per branch*	*Avrge Men per branch*	*Total Members (thousands)*
1988	501	10552	16917	2746	19663	13881	83194	979075	840.3	138.52	979
1989	641	15073	24016	2960	26976	14694	117762	132456	918.6	114.6	1033
1990	781	19536	31050	3156	34206	15588	158323	173911	1014	99.78	1113
1991	915	25248	39451	3300	42751	16011	197275	213286	1078	87.49	1165
1992	1015	30619	47854	3513	51367	18022	266857	284879	1277	87.45	1365
1993	140	33667	53879	3770	57649	22266	350032	372298	1642	103.23	1745
1994	1045	34913	56055	3866	59921	24321	387824	412145	1811	115.64	1928
1995	1055	35533	-	-	111	24923	400083	424993	-	-	-
1996	1079	36420	-	-	26681	24345	409446	433791	-	-	1909
1997	1105	37937	-		64701	-	-	-	-	-	2057

Source: Various Annual Reports of GB

Savings

Total savings of GB increased from 672 million Tk. in 1988 to 6596 million Tk., representing a growth of 881.39 per cent. The members' savings rose from 297.4 million Tk. to 4564.8 million Tk. in 1997, showing a phenomenal increase of 1434.82 per cent.

Table 3.2: GB's savings by type and gender, 1988 – 1997 (million taka)

Year	*Group fund saving*			*Emergency fund saving*			*Total saving*
	Women	*Men*	*Total*	*Women*	*Men*	*Total*	
1988	215.6	81.8	297.4	34.8	19.6	54.5	672
1989	349.2	101.8	451	59.4	24.6	84.01	1069
1990	526.7	122.9	649.6	98.1	30.7	128.8	1687
1991	746.8	145.1	891.9	145.4	36.7	182.1	2376
1992	1130.6	177.2	1307.8	151.6	38.5	190.1	3479
1993	1836.5	230.9	2117.4	172.6	44.31	216.9	6264
1994	2850.6	296.8	3147.4	177.4	45.2	222.6	8969
1995	4000.1	249.1	4249.2	182.3	46.1	228.4	650
1996	4094.5	243.4	4337.9				5256
1997	4310.6	254.18	4564.8				6596

Source: Various Annual Reports

Drop-outs of the GB Members

According to various annual reports of GB, the overall drop-outs from the credit programme of GB varied between 2 to 5 per cent from among its total membership (Table 3.3). The drop-out rates were not significantly different among the male and female loanees.

Table 3.3: GB's rate of drop-outs

Year	*Total Member*	*Total Drop outs*	*Percentage of Drop-outs*	*Drop-out Women (%)*	*Drop-out men (%)*
1988	490363	18006	3.67	3.8	2.88
1989	662263	22004	3.32	3.45	2.27
1990	899538	37948	4.36	4.52	2.74
1991	1066426	52277	4.9	5.03	3.33
1992	1424395	61163	4.29	4.42	2.38
1993	1814916	40749	2.24	2.3	1.73
1994	2013130	92942	4.62	4.5	6.39
1995	2065661	-	4.76	-	-
1996	2059510	-	3.98	-	-
1997	2272503	-	2.68	-	-

Source: Various Annual Report

Default

The GB's annual reports claim very low default rate. Table 3.4 shows that with the increase of membership the rate of default has increased both in absolute and percentage terms.

Table 3.4: Grameen Bank's Profile of Defaulters

Year	*Total borrowers*	*52 weeks Defaulters as percentage of Total borrowers*
1988	472430	1.14
1989	648.267	1.26
1990	852662	1.91
1991	1041630	2.7
1992	1385324	2.01
1993	1682914	1.05
1994	1860674	1.42
1995	1870371	2.89
1996	1783960	3.78
1997	2098204	6.82

Source: Various Annual Reports

External Funds

The external funds channelled to GB shows a secular upward trend. External flows have increased from 1413.52 million Taka in 1988 to 26657.7 million taka in 1997 an increase of 17 times (Table 3.5). The implications of dependency on external finance will be discussed in the later chapter.

Table 3.5: Grameen's Sources of External Funds (Million Taka)

Year	*BB*	*IFAD*	*NORAD*	*Dutch*	*SIDA*	*Ford F.*	*CB*	*Grant*	*Total*
1988	14.8	747.2	187.9	44.3	220.7	18.08		180.54	1413.52
1989	193.8	957.1	267.9	44.3	238.9	18.08		377.22	2097.3
1990	183.4	1085.7	267.9	44.3	238.9	66.37		967.12	2853.69
1991	173	1085.7	267.9	44.3	238.9	66.37		1351.46	3227.63
1992	322.76	1257.7	267.9	44.3	238.9	66.37	3.1	2445.86	4324.13
1993	3500	1352.6	267.9	44.3	238.85	66.37		2886.27	8356.29
1994	3500	1690.4	267.9	44.3	238.85	66.37	3250	261.49	7011.49
1995	3789.25	1657.8	267.9	44.3	238.85	66.37	228.34	62165.2	68457.6
1996		1620.9	267.9	44.3	238.85	66.37	711.37	43280.1	46229.8
1997		1690.3	267.9	44.3	238.85	66.37	3.18	25367.8	26657.7

Source: Various Annual Reports

Note: BB = Bangladesh Bank, IFAP = International Fund for Agricultural Development, NORAD = Norwegian Aid Agency, SIDA = Swedish International Development Agency, Ford F. = Ford Foundation.

3.4 BRAC's Rural Development Programme (RDP)

RDP, the largest core programme of BRAC, was set up in 1986. At the end of 1997, the RDP served more than 2.2 million households in 337 out of 460 thanas in all the 64 districts of the country.

Coverage

The BRAC's RDP programme recorded a phenomenal increase in terms of villages, branches and members. The RDP 's village coverage increased from 307 villages in 1989 to 5123 villages in 1997, showing a 32-fold rise in less than a decades time. While in 1989 average member per branch was 4403.4, it rose to 9865.5 per branch in 1997. During the corresponding period, total members have risen by 1928.41 per cent (Table 3.6).

Table 3.6: Year-wise Expansion of BRAC's RDP

Year	*Branch*	*Villages Covered*	*Groups*	*Average member per Branch*	*Members*
1989	80	307	6434	4403.4	352269
1990	120	931	1829	904.13	108459
1991	135	1099	3128	1017.8	137361
1992	140	687.8	2576	365.35	51149
1993	165	1403.4	2014	439936	825790
1994	299	1322.4	2759	37163	1111715
1995	339	978.2	44656	4456.6	1510802
1996	230	5345	51239	6521.7	1500000
1997	235	5123.9	62000	9865.5	2200000

Source: Various Annual Reports of BRAC.

Savings

BRAC's credit programme is now one of the largest in the world with more than 38 million dollars in members's savings at the end of 1997 (Annual Report, 1997). According to the report, 80 per cent of its members make regular savings deposits.

Disbursement and Use of Loan

At the end of 1997, BRAC disbursed 469 million US dollars. BRAC has developed sector programmes, wherein members can use their money. BRAC's poultry programme is one of the largest in Bangladesh. By 1997, 1.2 million women were involved in the poultry sector and a total of 9.37 million day old chicks were being reared (Annual Report, 1997). More than 50, 000 women are involved in agriculture programme and in 1997, more than 11, 000 farmers were brought under this programme with a total of 2687 acres of land under vegetable cultivation.

Table 3.7 shows that major disbursement was made in rural trading, followed by poultry and livestock. A significant amount was also disbursed to its members for investment in food

processing and agriculture. These are small-scale, agro-based and agro-support activities, aimed at contributing towards employment and income generation for the rural poor.

Table 3.7: Sectorwise Disbursement: Cumulative up to 1997 (Taka 21,585 million)

Table 3.10: Sectorwise disbursement: cumulative up to 1997

(Taka 21,585 million)

Sector	*Percentage of Disbursement*
Rural Trading	42
Poultry and Livestock	19
Food Processing	16
Agriculture	11
Fisheries	4
Rural Transport	3
Housing	3
Cottage Industry	2

Source: Annual Report, 1997

Default and Drop-out Rates

BRAC's annual reports claim that its rate of repayment is around 98 per cent, leaving a default rate of only 2 per cent. When drop-out is disaggregated by gender, the incidence of male members tends to be relatively high, though it hardly leaves any impact on the total since BRAC's membership is highly skewed towards women members.

3.5 BRDB's RD-12 Programme

BRDB's project RD-12 provides credit, skill development training and other human development inputs to the poor. Savings mobilisation is an integral part of the RD-12 project's activities. The recovery rate of this project is as high as those of BRAC and GB.

Coverage

The project covers 139 villages, with an annual outlay of Taka 30 crore. Recently, it has been extended to 145 villages. Membership has risen from 23831 in 1989 to 100447 in 1996, showing an increase of 321.49 per cent.

Loan Default and Drop-out

The BRDB's RD-12 also exhibits a low default rate (3.8), being at a minimum, with some yearly fluctuations. It peaks in 1991 with a rate of 13.3 per cent.

Table 3.8: BRDB's Defaulters as Percentage of Total Borrowers

Year	*52 weeks Defaulters as percentage of total borrowers*
1989	4.0
1990	0.0
1991	13.3
1992	8.0
1993	5.0
1994	7.0
1995	7.19
1996	1.5
1997	2.0

Source: BRDB

The trend drop-out rate remains around 6 percent. The drop-out rate peaks in 1992, with a rate of 15.83 percentage of total members. When compared by gender disaggregation, male drop-out rate is found to be relatively high (3.9).

Table 3.9: BRDB-RD-12's Drop Outs

Year	*Total Member*	*Total Dropout (%)*	*Male Dropout (%)*	*Female Dropouts (%)*
1989	154.15	1.47	1.86	0.57
1990	198.09	1.63	2.53	1.3
1991	267.5	4.77	3.82	1.4
1992	346.32	15.83	4.75	1.5
1993	427.7	9.53	5.22	1.75
1994	452.02	6.31[	7.31	1.96
1995	454	7	7.25	1.08
1996	480	7.25	6.2	1.02
1997	440	6.2	4.5	1.25

Source: BRDB

A comparative scenario of the important features of the micro-credit operations by the three leading NGOs of Bangladesh is presented in Appendix Table 3.1. Except some minor differences in their programme coverage, all the NGOs operate on the same basic principles, serve the same target groups, and work to achieve the same goals and visions.

Appendix Table 3.A

A Comparative Summary of the Features of Grameen Bank, BRAC-RDP and BRDB-RD-12 Micro-Credit Programmes

Category	**Organisation**		
	Grameen Bank	**BRAC-RDP**	**BRDB-RD-12**
Date of origin	*1976 as project, 1983 as GB*	1986 (RDP+RCP)	
Organisation: Units Head Office Area Office Village Kendras	 *1 (Dhaka)* *1112* *38551(as in 1998)*	 1 (Dhaka) 330 51239	 1 (Dhaka) 17 Dist.,139 Thana 16903
No of Members: Present members Past members % of Women Members	 2334780(in 1998) 42 (in 1976) 95%	 2230000 - 90%	 453857 - 70%
Source(s) of Finance	UDFA, IFAD, NORAD,SIDA, KFW and GTZ,CIDA,OECF, The Ford Foundation,The Dutch Government.	AKF,CIDA, DANIDA, EEC, FF, NORAD NOVIB, ODA	ADP, CIDA, TECCA, Sonali Bank
Credit system features	Collateral arrangements- peer pressure, peer support and social obligation within the group.	No collateral method	-
Loan Repeat Eligibility	Any group member who regularly repays the weekly instalment.	Unlimited – if repayment record is good	-
Loan holding(less than0.50 acre of holding)	Yes	Yes	Yes
Assets:-have cultivable land within 0.5 to (1-5) acre	Yes	Yes	Yes
Income:- No regular income and permanent resident of the village.	Yes	Yes	Yes
Age:- From (18-50) years age. Preference for widowed, destitute, divorced.	Yes	Yes	Yes
Others- should not be the member of any other organisation	Yes	Yes	Yes
Loan size	The minimum loan size vary from one activity to another 5000+	General loan size varies-500-8000 Housing, 2500-6000, Average loan,1322-1332.	The average loan size varies from, 2500-10,000
Recovery Rate	98%	98%	97%

Maturity		1-11 month 12-47 month 48+	
Repayment frequency	Weekly regular instalment.	Weekly	Weekly.
Interest Rate	20% Declaring	20% Declaring	Face value 16%
Interest charged by Bank	5.5% BB, 6.8% NCB		5%
Service charge by NGO project	20%	16%	2%
Manager Fees			2%
Group Fund (GF)	5%	4%	5%
Risk Fund	1%	1%	
Insurance		1%	
RLF			2%
Use of Loan	General use, Housing, Processing and Manufacturing, Agriculture and Forestry, Livestock and Fisheries, Services, Training, Paddy-husking, Shop-keeping.	General use, Housing, Processing and Manufacturing, Agriculture and Forestry, Livestock and Fisheries, Services, Training, Paddy-husking, Shop-keeping.	33 IGA's , Credit preparation Plan Income generating activities, livestock and fisheries, services, trading, paddy husking, shopkeeping.

Source: Annual Reports of the Relevant MFI

Chapter 4

SOCIO-ECONOMIC IMPACT OF THE MICRO-CREDIT INTERVENTIONS ON THE SURVEY HOUSEHOLDS

4.1 Introduction

The chapter attempts to assess the impact of the micro-credit programmes on the lives and living standards of the participants at the household level with a view to examining the efficacy of the programmes. The chapter builds on the premise that efficacy of financial service can be measured in terms of increase in the incomes and productivity of the programme participants as the micro credit programmes have emerged to help the poor become self-employed with the explicit objective of assisting them to escape from poverty. An alternative and indirect way of assessing the efficacy of such intervention is to examine the sustainability of the welfare of the programme participants. This can be done through measuring changes in the commonly used welfare indicators, such as children's education, food consumption, contraceptive use and fertility behaviour and so on.

While the main focus of the chapter is to highlight the welfare of the programme participants, it examines how the micro-credit interventions have impacted on the lives and living standards of the programme participants. The assessment of intra-household effects is captured in terms of schooling, food consumption, environmental health and sanitation, health, family planning, agricultural and non-farm employment and net worth**.**

4.2 Methodology

The analysis is based on the data from a multipurpose household survey conducted for the study. The survey covered one village of each of the programmes – Grameen Bank (GB), BRAC, RD-12 and WFP assisted Food for Works programme. For making a comparative assessment, the survey covered both programme villages of each of the stated programmes and villages in which neither these programmes nor any other programmes providing credit or other activities including transfer mode operations were in execution. The respondents from the latter, what is termed as "control village," was carefully selected from those who meet the eligibility criteria of becoming target households of these programmes.

The unit of the survey is household, not individuals, so gender balance was deliberately maintained in selecting the respondent households. The table below, thus shows that information was gathered both from male and female programme participants, reflecting

national population divide. Effort was made to maintain a balance between married and unmarried borrowers.

Table 4.1: General Information about the Respondents

	GB	*BRAC*	*WFP*	*BRDB*	*Control Village*
Percentage of Male	55.2	51.4	51.2	53.6	51.3
Percentage of Female	44.8	48.6	48.8	46.4	48.7
Percentage of Married borrowers	42.9	54.3	42.9	45.9	46.0
Percentage of unmarried borrowers	50.9	44.0	52.7	52.1	50.3
Others	6.2	1.7	4.4	2.0	3.7

Source: Field Survey, 1998

4.3 Educational Profile of the Households and Children's Schooling

The interventions are seen to have created a significant impact on the educational profile of the households when comparison is made between intervention village vis-a-vis control village. Around 90 per cent households of the programme villages know alphabets and can write while it is only around 60 per cent in the control village, although more than the national average (Table 4.2). Average uneducated members per programme village is around 2, with lowest in the public agency's programme, while the rate is almost 70 per cent higher in control village.

When asked about the reasons for not attending schools, most of them replied that they were compelled to engage themselves in household works in order to maintain their subsistence since childhood. Some felt that immediate marginal benefit of attending school is much less attractive especially against the backdrop wherin subsistence is at stake. The rate is astonishingly high among the control villagers (over70 per cent) in comparison to the programme villages.

Table 4.2: Education Profile of the Respondents

Category	***GB***	***BRAC***	***WFP***	***BRDB***	***Control Village***
Percentage of H/H having educated members	91.4	85.7	97.2	89.0	60.0
Average uneducated member per H/H	2.2	2.1	2.4	1.5	3.4
Reasons for not attending school					
a. Expenses	4	9	3	4	17
b. Helping H/H work	39	40	27	9	73
c. Distance	2	3	3	0	4
d. Parents did not ant	2	1	17	7	0
e. Others	13	3	0	18	7

Source: Field Survey, 1998

It is argued that these programme interventions leave a significant impact on the schooling of the children. The awareness and training programme associated with these type of programme interventions lead the programme participants to develop better lifestyle by making investments for educating their future generations. Thus they invest in future. The economic motive behind making investments for the future generations is to develop human capital that not only would lead their children to escape from poverty but also push them up to upper income levels.

The findings of the present survey provide support to the hypothesis as evident from Table 4.3. A comparative assessment of the investments made by the programme village and the control village reveals that the programme interventions play a catalytic role in developing future human capital. The BRDB- assisted households stand out as the highest investors in the future (Tk. 4826 per household) while the control village households spend less than half of BRDB (Taka 2116 per household).

Table 4.3: Expenses Incurred for Educational Purpose by the Households

Category	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Percentage of H/H incur educational expenses	74.3	57.1	79.3	37.1	51.4
Average Admission, registration and tuition fees per H/H (tk.)	850	615	352	668	276
Average cost for Clothing per H/H (tk.)	746	1013	1081	1285	609
Average cost for books and statio. per H/H (tk)	514	828	695	958	353
Average conveyance per H/H (tk.)	75	0	0	123	170
Average cost for private tutor per H/H (tk.)	1055	940	1223	1397	500
Average Examination fees per H/H (tk.)	108	172	339	232	105
Average Other expenses per H/H	98	600	198	163	103
Average Total expenses per H/H (tk.)	3446	4168	3888	4826	2116

Source: Field Survey, 1998

Food Consumption

The households of the participating programme villages except those in Grameen Bank spend more money than those of control villages on food in order to keep themselves nutritionally fit for engaging in productive activities. Most of the food is procured from the sources outside the households, demonstrating lack of control over land and farm produces.

Table 4.4: Households Expenditure on Food (Monthly)

Category	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Average Expenses for food per H/H (Tk.)	114	2025	29557	2457	2189
Average amount spent per H/H for purchases of food outside H/H source (Tk.)	1385	1936	2097	1967	1792

Source: Field Survey, 1998

4.4 Environmental Health and Sanitation

The survey results showed that hand pump is the major source of drinking water for every household. But when classified by ownership of the pumps, it is found that the rate of ownership of hand pump by the members of GB, WFP and BRDB is quite high in comparison to the programme participants of BRAC and the non-participants. Control villagers and BRAC participants share pumps. The use of boiled water is found to be insignificant.

In terms of use of sanitary latrines, a sharply contrasting picture emerges, showing that around 70 per cent of the programme participants use sanitary latrines while an insignificant 6 per cent of the control villagers use the facility.

Table 4.5: Profile of Environmental Health and Sanitation

Category	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Sources of drinking water (%)					
1. Hand pump (family)	65.7	22.9	80.0	74.3	31.4
2. Hand pump (Owned by others)	31.4	77.1	20.0	25.7	68.6
3. Open well	2.9	0.0	0.0	0.0	0.0
4. Pond/River/ Canal	0.0	0.0	0.0	0.0	0.0
Percentage of H/H taking boiled water	2.9	2.9	11.4	11.4	2.9
Percentage of H/H using dustbin for garbage	44.0	37.0	43.0	88.0	83.0
Percentage of H/H using Sanitary Latrine	54.0	62.0	88.0	77.0	6.0

Source: Field Survey, 1998

Sickness and Treatment

The survey does not reveal any observable difference in terms of sickness reported and the sources of treatment used by the programme and the non-programme village households (Table 4.6).

Table 4.6: General Information about Disease and Injuries

Category	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Average number of sick members per H/H	1.8	1.6	2.8	3.2	1.6
Average duration of illness (days)	12.5	10.6	9.4	9.0	12.0
Percentage of affected taken medical treatment	100.0	100.0	87.0	93.0	90.0
Percentage did not seek medical advice	0.0	0.0	13.0	7.0	10.0
Nature of treatment					
Mainstream (%)	74.0	100.0	92.0	85.0	85.0
Homeopathy(%)	13.0	0.0	2.0	15.0	0.0
Traditional/etc (%)	13.0	0.0	6.0	0.0	15.0
Average days lost due to illness and injuries	19.0	10.0	10.0	8.0	17.0

Source: Field Survey, 1998

Reproductive Health

The percentage of households adopting family planning remain almost equal across the board. It may be because of the government being the primary source of supply of contraception devices of the households as reported in Table 4.7. Although Grameen members are the largest users of the government supplied contraceptions, they spend also higher amounts for buying various contraceptives.

Most of the pregnant mothers gave birth to their children at their houses with the help of the traditional birth attendants. There is no observable difference amongst the group on account of breast feeding also.

Table 4.7: Profile of Reproductive Health

Category	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Percentage of H/H adopted Family planning	62.9	68.6	88.6	77.1	65.7
Sources of Contraception					
1. Government	84.2	75.9	61.3	53.0	66.7
2. private	5.3	3.4	6.5	6.3	0
3. NGOs	10.5	32.2	40.7	33.3	20.7
Average expen. on contraception per H/H (Tk)	26.8	17.5	15.9	12.9	12.4
Place of birth of Children:					
House (%)	94.5	100.0	97.0	95.5	99.1
Private doctor/ Clinic (%)	0	0	0	0	0
Government Hospital (%)	1.1	0	0	2.7	0.9
Others (%)	4.4	0	3.0	1.8	0
Percentage of population breast feed	96.8	99.0	97.7	97.3	100

Source: Field Survey, 1998

Marriage and Children

The average age at first marriage remains within teens, showing the trend of early marriage and disproving the recent claims about the elevation in the age of marriage due to awareness created by these programmes. There is no significant difference between programme and non-programme villages in terms of the number of children, though they remain within two. This may be attributed to nation-wide decline in fertility due to government interventions. The other indicators of family life presented in Table 4.8 also do not reveal significant differences.

Table 4.8: Profile of Marriage and Family Life

Average number of married person per H/H	***GB***	***BRAC***	***WFP***	***BRDB***	***ControlVillage***
Average age of first marriage	16.5	16.6	16.7	17.6	18.4
Average number of children per H/H	1.7	2.0	2.5	2.4	1.9
Average number of short-lived children per H/H	1.4	1.0	1.5	1.0	1.5
Average number of still-birth children per H/H	0	0	1.0	1.7	1.6

Source: Field Survey, 1998

4.5 Occupational Composition

Table 4.9 shows that there is a shift towards self-employment from farm-employment, which may be attributed to programme intervention. This shift in the occupational pattern becomes especially marked from row three of the table where comparisons are made between the programme and the non-programme villages. In the control village, for example, the proportion of self-employed persons is only 51 percent compared to 74 per cent in the programme villages. However, still a good number of household members work in agriculture while a portion of the respondents work as non-farm wage labourers. The BRAC participants spend less time in agricultural activities.

Table 4.9: Households' Profile of Employment

Category	***GB***	***BRAC***	***WFP***	***BRDB***	***Control Village***
Average number of members per H/H working in agriculture	1.1	.4	1.3	1.3	1.4
Average number of members per H/H working as non agricultural labor	1.6	1.3	1.5	1.6	1
Percentage of H/H having self employment	80	74	86	77	51

Source: Field Survey, 1998

Agricultural Activities

The BRAC members are hardly seen to engage themselves in agricultural activities, perhaps because of having little cultivable land per household. On the contrary, the control villagers, perhaps not finding any other alternatives, employ themselves in large numbers in agricultural activities. The control villagers and Grameen members have taken land on lease for share cropping. But the return on land varies between the two A GB household earn Taka 6999 by spending Taka 2115 in contrast to earning of Taka 2540 from an expenditure of Taka 808 by a control village household.

Table 4.10: Households Profile of Agricultural Activities

Category	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Percentage of H/H having agricultural activities	85.7	2.9	77.1	57.0	90.4
Average cultivable land per H/H (decimal)	46.6	20.0	33.4	24.0	88.0
Percentage of H/H taken land on lease for share cropping	57.0	2.9	45.7	8.6	87.4
Average income per H/H from land (Tk)	6976	6100	2633	1860	2540
Average expenditure per H/H for land (Tk)	2115	950	1422	678	808

Source: Field Survey, 1998

4.6 Assets and Incomes

There is significant difference amongst the members in terms of ownership of land used for the business, with the GB members having the least amount of land. Those who have acquired land, in case of GB member, it is purchased through credit while other programme members have done it through savings and other sources. Hardly anybody owns structures except one-third of the BRAC samples. The same is applicable in case of machines, instruments and other permanent assets required for businesses.

The survey result shows that the lion's share of the expenditure on production activities is spent on account of purchasing raw materials. In terms of irregular expenses, the rent for space tops the expenditure categories as most of them continues to carry out their business on khash land or in *hats***,** for which they paid toll or most of the time evaded such payments..

Table 4.11: Assets of and Income from Non-agricultural Activities

Category	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*	
% of H/H having own land for business		5.7	28.6	45.7	25.7	-
Market price of average land owned for business per H/H		4000	21833	26950	12900	
Means of acquiring land						
1.Own savings (%)			37.5	35.7	40	
2. Loan from friends/relatives (%)		-	-	-	-	-
Loan from MFI (%)		100	12.5	7.1		
Others (%)			50.0	57.2	60.0	
% of H/H own structure (House)		8.6	37.1	17.1	20.0	2.9
Average market price of such physical structures (Tk.)		9000	5714	4667	11833	2000
Means of acquisition of the house		-	-	-	-	-
Machines/ Instrument/ Tools		-	-	-	-	-
%of H/H having own machines		2.9	20	25.7	11.4	
Average market price of machines and other equipment (Tk.)		7000	6164	2548	5500	
Means of acquisition		-	-	-	-	-
1.Own savings (%)		100	66.7	75	40	
2. Loan from friends/relatives (%)						
Loan from MFI (%)			33.3		60	
Others (%)				25		
% of H/H having other permanent assets		11.4	42.9	40	42.9	57
Average market prices of other permanent assets used for the business (Tk.)		8250	5100	12321	11500	750
Means of acquisition						
1.Own savings (%)		100	61.5	75	71.4	
2. Loan from friends/relatives (%)			7.7			
Loan from MFI (%)			30.8	8.3	21.4	
Others (%)				16.7	7.2	

Source: Field Survey, 1998 Expenditure

Income

Table 4.12 shows that average income from the non-farm activities ranges between Taka 1580 to 2500 for the programme participants while it is only Taka 880 for the non-participants. The implication is that availability of credit could raise the income of a participant by giving him access to necessary inputs and services.

Table 4.12: Income from Non-Farm activities (Taka)

Category	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Average monthly sale	6250	14817	20997	7704	3200
Average monthly income from NFA	1580	2700	2944	2563	880

Source: Field Survey, 1998

Savings

The micro-credit intervention has succeeded in infusing savings habit among the poor, no mater how small the amount is. The survey reveals that programme participants of the BRDB have saved the highest amount on average while GB bottoms the list (Table 4.13).

Table 4.13: Particulars related to Savings

Category	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Average current market value of savings per H/H	490	1677	1038	2751	300
Average amount withdrawn from the account	285	0	180	0	0
Average amount saving in the programs of group accounts per H/H	499	1706	1097	1599	0

Source: Field Survey, 1998

4.7 Before-After Comparison of Assets

A before-after comparison of asset holding by the sample households was made and the results are presented in Table 4.14. While any dramatic shifts not revealed in the command over resources, especially in terms of fixed assets, it becomes evident that three is almost no change in terms of ownership of land holdings. However, it was not measured what would have happened in land ownership without the programme intervention.

The small changes that can be observed relating to asset holding by the programme participants are more visible in terms of resources such as equipment and instruments.

Table 4.14: A Before-After Comparison of Assets

Category	*GB*		*BRAC*		*WFP*		*BRDB*	
	before	*after*	*before*	*after*	*before*	*after*	*before*	*after*
Average decimal of homestead per H/H	10	10	11	10	15	16	9	9
Average decimal of ponds/ chastens /gardens per H/H	10	10	20	20	14	18	9	9
Average decimal of cultivable land per H/H	43	43	1	1	33	31	29	32
Average decimal of share cropped per H/H	38	22	92	92	85	60	10	10
Average decimal of other owned land per H/H	0	0	10	12	10	12	13	13
Total value (average)per H/H (Tk.)	97878	97878	29632	30028	56102	61571	81398	83182
Average market price of Bicycle/motorbike per H/H (Tk)	3875	3000	1900	1583	1000	8833	1750	2000
Average market price of boats/ Rickshaw per H/Hn (Tk)	0	0	2500	4500	3000	2500	5000	4500
Average market price of pushcart/horse drawn carraige per H/H (Tk)	0	0	0	0	0	2000	0	0
Average market price of other transportation per H/H (Tk)	0	0	0	0	0	0	0	0
Average price of processing implements per H/H (Tk)	275	900	2500	4500	200	400	150	200
Average price of perimeters per H/H (Tk.)	240	387	400	400	275	425	113	276
Average price of radio/tape recorder/TV etc per H/H (Tk)	440	1168	7000	1329	0	1212	2210	2300
Average price of gold/silver ornamentsper H/H (Tk)	2687	2661	3086	2955	2050	2803	1500	2957
Average market price of Machines/ Industries per H/H (Tk)	1782	1859	1021	1858	1042	1974	1791	3166
Average market price of House per H/H (Tk)	4038	10235	8485	9941	9125	1106	9759	12815
Average market price of other assets per H/H (Tk)	1765	3182	2223	3709	1594	5441	1436	2566

Source: Field Survey, 1998

Chapter 5

AN ASSESSMENT OF THE IMPACT OF A GOVERNMENT SAFETY NET PROGRAMME : THE CASE OF FFEP

5.0 Introduction

This chapter focuses on the safety net programmes introduced and implemented by the Government from time to time to achieve both transfer payment and human capital accumulation objectives. There is a long tradition of using the safety net programmes for the poor, funded by external food aid. The three largest programmes are Food for Work (FFW), which provides wheat in exchange for work in rural infrastructure projects, Vulnerable Group Development (VGD), which provides food grain and training to disadvantaged women, and Food for Education (FFEP), which initially provided wheat and now provides wheat and rice to poor children in return for regular primary school attendance.

The present chapter attempts to explore the efficacy of FFEP as this is the relatively new and fast growing programme. FFW and VGD are already well researched and there exits substantial knowledge base about these. The discussion is organised in three sub-sections. Section I highlights the school enrolment on a before-after comparison basis and analyses internal efficiency of primary education in "non-food" and FFEP schools, using such indicators as enrolment, attendance, dropout and repeat. The second sub-section analyses impact of the FFEP at household level including incidence on child labour and knowledge and perception about FFEP. The final section again from macro perspective comprehends the cost-effectiveness of FFEP and ends with a comparison of efficacy of such transfers.

The household level information was collected through a small survey. The programme level efficacy has been analysed using secondary data as such analysis requires gathering information from a sizeable sample for which enough resources were not available.

5.1 A Short Background to FFEP

The FFEP started in at least one union of each of the 460 thanas in Bangladesh in 1993-94, with the objective of encouraging poor families to send in their children to primary schools and sustain them there in exchange for food given as income entitlement. The programme expanded steadily and the gradual increase in coverage reached at 1243 unions (Table 5.1) in 1995-96. About 19,62, 496 families of 22,39,805 students of 16,159 schools have benefited under FFEP during 1995-96 (Table 5.1).

Table 5.1: Progress of FFEP at a Glance

Period	*FFEP Coverage*				
	No. of Unions	*No. of Schools*	*No of Students enrolled*	*No.of Students Benefited*	*No.of Families benefited*
1993-94	460 (10.44)	4914 (7.30)	1504437 (16.73)	706519	549881
1994-95	1000 (22.70)	12182 (18.10)	3619243 (19.06)	162865 9	141693 2
1995-96*	1243 (28.21)	16159 (24.01)	4960813 (26.71)	223980 5	196249 6

Note: Figures in the parentheses indicate percent of total number in the country; * In 1996-97, the same unions and schools as was covered in 1995-96 have been covered. The number of students may rise during the period, however.

Source: BIDS (1997) based on Project Implementation Unit, FFEP, Dhaka, May 2, 1997

5.2 Impact of FFEP on Internal Efficiency of the School System

The underlying objective of the FFEP has been improvement of the primary education system in general. The performance indicators such as enrolment, drop-out and repeat rate reflect the health of school, which essentially records mobility of the school in terms of sustainability.

Table 5.2 shows that FFEP schools perform better in terms of enrolment and attendance rate. On the remaining two variables – drop-out and repeaters' rate – the evidence is at best mixed. No clear picture emerges and can not be said that FFEP schools are performing better.

Table 5.2: Indicators of Internal Efficiency of Primary Education in "Non-Food and FFEP Schools in 1996

	Enrolment (number)		*Attendance Rate (%)*		*Dropout Rate (%)*		*Repeaters Rate (%)*	
	GradeI	*GradeIV*	*GradeI*	*GradeIV*	*Grade I*	*GradeIV*	*GradeI*	*GradeIV*
FFEP School (N= 152)	112.6 (53.7)	52.5 (25.0)	75.1	78.0	7.4 (7.2)	6.7 (6.7)	12.7 (12.9)	10.9 (10.1)
Non-food School (N= 152)	73.4 (33.7)	40.5 (19.0)	62.7	63.7	7.3 (7.1)	9.3 (9.9)	7.43 (13.7)	12.3 (11.5)

Note: Estimates of girls are given in the parentheses

Source: Compiled from BIDS (1997)

$$\text{Dropout Rate } X_{it} = \frac{\text{Pupil dropping out in the year (t) in grade (i)}}{\text{Total enrolment in the year (t) in grade (i)}} \times 100$$

$$\text{Repeaters Rate } R_{it} = \frac{\text{Pupil repeating in the same grade (i) at the begining of the next year (t+1)}}{\text{Total enrolment in the year (t) in grade (i)}} \times 100$$

The BIDS (1997) study analysed the performance of FFEP schools without and with FFEP interventions over two years time horizon. The "without" was measured using the data of the preceding year of intervention while the successive year i.e. the year FFEP was introduced in school was treated as "with." The study found that enrolment size has gone up in both sample grades I and IV during the "with" year. Moreover, the contrasting "with" and "without" situation shows that enrolment of girls students has increased at a higher pace.

Table 5.3: Internal efficiency of Primary Education in FFEP Schools in "Without" and "With" Situations

Grade	***Enrolment (number)***	
	without	***With***
In Grade I	88.9	113.2
	(40.2)	(54.1)
In Grade II	35.7	52.7
	(15.7)	(23.4)

Source: BIDS (1997)

In the FFEP schools enrolment has gone up by almost 14 per cent while total enrolment in non-food school has hovered between 2.56 per cent to 5.96 per cent in both phases. However, it is also seen from the Table 5.4 that the enrolment-growth rate in FFEP schools during pre-FFEP period was much higher that those of non-food school. It leaves the question of selectivity bias open. Moreover, it also raises the question whether targeting was done in proper directions.

Table 5.4: A Before-After Comparison of Changes in School Enrolment

FFEP Intervention Phase	***Category of Schools***	***Percentage Change in total enrolment***	
		Before FFEP	***After FFEP***
First Phase Unions	Non-food Schools	5.05 (8.55)	5.96 (2.05)
	FFEP Schools	30.27 (39.52)	13.85 (16.49)
Second Phase Unions	Non-food Schools	2.56 (4.76)	(-)1.38 (0.75)
	FFEP Schools	19.46 (23.02)	12.99 (13.44)

Note: The percentage changes in girls' students are shown in the parentheses.

Source: Compiled from BIDS (1997)

Lessons from Household Levels

For the purpose of the present chapter, a small survey was conducted where two schools were selected on random basis. The survey was conducted on the beneficiaries of FFEP. The purpose of the perception survey was to explore whether the programme benefit is reaching the target group and whether the members of participating households are satisfied with the programme. The general profile of the respondents are given below:

Table 5.5 : A General Profile of the Respondent Households

Category	***Average/Percentage***
Average No. of Children	2.1
Percentage of Boys	49.4
Percentage of girls	50.6
Percentage of Children attend Schools	73.0
Percentage of Children benefit from FFEP	75.9
Percentage of Boys benefiting from FFEP	53.7
Percentage of Girls benefiting from FFEP	46.3

Source: Field Survey, 1998

The survey findings reveal that benefiting children comes from the poor households. As observed from Table 5.6, over 90 per cent of the heads of the households are agricultural labourers and landless engaged in various seasonal occupations. However, it is unclear whether the programme is reaching the poorest of the poor since that requires a comprehensive and focused investigation.

Table 5.6: Professional Distribution of FFEP Benefiting Households

Profession	*Percentage*
Agricultural Labourer	40.0
Landless engaged in various seasonal employment	51.1
Artisan and Craftsman	5.7
Petty trading	3.2

Incidence on Child Labour

The FFEP has left positive bearing on involvement of child labour, especially at the household level. The survey reveals that a portion of the children is now engaged in regular and seasonal employment, indicating a trend of abolition of child labour (Table 5.7). However, it is unclear whether FFEP acted as the key determinant in the near abolition of the incidence of child labour.

Table 5.7: Impact of FFEP on Child Labour

Incidence of Child Labour	*Percentage*
Not working as child labour	73.0
Working everyday as child labour	7.0
Occupationally working as child labour	11.4
Seasonally working as child labour	8.6

Source: Field Survey, 1998

5.3 Perception about FFEP

While nearly two-thirds of the sample households are aware of their entitlement, a sizeable portion of the participating households (34.3) is not aware about how much of food grain they are entitled, (Table 5.8) leaving room for leakage and pilferage. Another representative sample complained about the allocation process and they (28.6) are of the opinion that they do not receive the allotted amount in due time, putting extra burden on the households' consumption level. The lower income tier within the programme participants sells a portion of their entitlement to market place for meeting other necessities.

However, most of the participants are satisfied with the introduction of FFEP stating that this has supplemented their income level. An overwhelming majority of the programme participants wants the entitlement in 'cash' instead of 'kind'.

Table 5.8: Knowledge and Perception about FFEP

Issue	***Indicator***	*Percentage*
Knowledge about allocation	Aware	65.7
	Note aware	34.3
Receive allocation at due time	Receive	71.4
	Do Not Receive	28.6
Receive the total allocation	Receive	91.4
	Do Not Receive	8.6
Sell at market	Sell	8.6
	Do not sell	91.4
Satisfaction	Satisfied	97.1
Want cash benefit		77.1

Source: Field Survey, 1998

5.4 Cost-Effectiveness of FFEP

The BIDS (1997) study measures cost-effectiveness of the FFEF programme by identifying cost in terms of purchase and delivery cost and benefit through income actually received by the target households and finds that the cost of transferring TK 1.00 worth of income benefits varies from Tk. 1.51 to Tk. 1.12 under different assumptions.

Table 5.9: Cost-Effectiveness of FFEP, 1995-96

Item	*Estimates*
COSTS (Lakh Tk.)	
Foodgrain	22236.40
Delivery	1085.00
Total Cost (Lakh Tk.)	23321.40
BENEFITS	
Leakage (percent)	
i) strict assumption	30.5
ii) Liberal assumption	6.1
Income (Lakh Tk)	
i) strict assumption	15454.3
ii) Liberal assumption	20880.0
Cost/Income Transferred	
i) strict assumption	1.51
ii) Liberal assumption	1.21

Source: BIDS(1997)

A comparative assessment of cost effectiveness of FFEP with other food-based programme finds FFEP as the most cost-effective safety net programme (Table 5.10).

Table 5.10: Cost-Effectiveness of Food-based Programmes

Programme	***Cost of Transferring Tk 1.00 worth of income benefit (Tk.)***
Rural Rationing (former)	6.55
Vulnerable Group Development(VGD)	1.68
Rural Maintenance Programme (RMP)	1.32
Food for Work (CARE)	2.81
Food for Work (WFP)	2.06
Food for Education (FFEP)	1.12 – 1.51

Source: IFPRI (1994) and BIDS

FFEP is the fastest growing safety net programme, accounting for 43 per cent of the primary education budget in 1997-98 Annual Development Programme (ADP). Analyses have shown that the FFEP has augmented primary school enrolment by almost 25 times and has been found to be the most cost-effective safety net programme in terms of its positive impacts on several directions, although the issue of targeting has remained biased and to an extent imperfect.

The FFEP has increased enrolment and attendance, but failed to make headway on two critical quality indicators – drop-out rate and repeaters. When sustainability is considered,

these two indicators leave room for significant improvements and drastic redesign of the programme. Better targeting is urgently required.

5.5 Some Probing into the Differences in Socio-Economic Conditions of the Program and Non-Program Areas

In order to map out the impact of micro-credit intervention in the survey areas the present study adopted the 'survey village' versus 'control village' and 'before – after' comparisons within the survey villages. Although it is difficult to posit casual links between loan use and changes in income levels due to fungibility of credit and money in general, our survey results reveal several import changes in the socio-economic conditions of the program participants vis-à-vis the non-participants although the differences identified through before-after comparisons are in most cases marginal.

The important reasons underlying such changes may be attributed to a number of economic and non-economic factors. The economic reason of low-retained incomes by the survey households may stem from small size of loan, lack of economies of scale in the sectors choosen by the borrowers to invest and small gains in productivity. The small size of loan absence of economies of scale, and low productivity appear to be putting downward pressure on the retained earnings, specially in terms of acquisition of fixed assets by the borrowers.

The second distinctive difference between the program villages and control groups is seen in terms of progress made by the program villagers in respect of human resources development indicators. The survey results reveal that the difference is to be attributed to program intervention and not to the differences in the initial conditions of program and control villages. The plausible explanation lies in these programs' approaches to development. The program strategy clearly tries to take into cognisance the need for a 'holistic' development approach putting emphasis on human and sustainable development, though concepts and implementation plan in their programs may appear to be less clear and sometimes conflicting. In most cases, apart from delivery of credit, the MFI activities also include :

- institution-building through forming groups and village organisations
- functional education courses given to the borrowers before they start taking credit
- skill training

- a para-legal training course in which training explain legal stipulations relating to marriage, divorce, land rights, etc.
- a health awareness program in which they are made familiar with issues pertaining to primary health care and child and maternal health care, etc.

All these are elements of orientation training given to the loanees which is designed to organize, motivate and conscientise them.

Chapter 6

Programme Sustainability : A Comparative Assessment of GB, BRAC and BRDB Programmes

6.0 Introduction

This chapter attempts to explore the programme level sustainability of the micro-credit programmes. The programme level sustainability is examined through analysing the income-expenditure structures of the programme and estimating financial efficiency indicators, break-even interest rate and subsidy dependence index (SDI). A credit programme may be considered on the way towards sustainability when its income structure deepends on interest income while operating expenses gradually decline. A credit delivery programme is cost-efficient when cost of delivery decreases over time. The over-riding concern of these programmes is their external dependence. Finally, a programme may be considered being on the way towards self-reliance if the rate of dependence, captured through SDI, shows a downward trend. Based on these indices, we attempt to examine programme sustainability of GB,BRAC and the BRDB. It is noted once again that the figures obtained from the MFIs concerned and used here to estimate various indices might be affected by usual statistical limitations and hence affect our results.

6.1 Grameen Bank

Income Structure

An analysis of the income structure of the Grameen Bank (Table 6.1) shows that the Bank was highly dependent on donations and government allocations for its incomes at an average of 80 per cent till 1995. From 1996 onward, the MFI's income emanating from interest jumped to 60 per cent from a range between 10 to 20 percent, indicating a silver lining in terms of programme sustainability.

Table 6.1 : Programme-Level Income Structure (Mill Tk.)

Years	*Donation/Govt. Allocation*	*Interest Income*	*Internal Resources*	*Training Income*	*Others*	*Total*
1988	1413.52	165.07	-	-	-	1578.59
	((89.54)	(10.46				(100)
1989	2097.30	237.04	-	-	-	2334.34
	(89.85)	(10.15)				(100)
1990	2853.69	335.35	-	-	-	3189.04
	(89.48)	(10.52)				(100)
1991	3227.63	471.10	-	-	-	3698.73
	(87.26)	(12.74)				(100)
1992	4324.13	700.56	-	-	-	5024.69
	(86.06)	(13.94)				(100)
1993	8356.29	1224.09)	-	-	-	9581.19
	(87.22)	(12.78)				(100)
1994	77011.49	1912.86	-	-	-	8924.35
	(78.57)	(21.43)				(100)
1995	8502.55	2176.19	-	-	107.67	10786.41
	(78.83)	(20.17)			(1)	(100)
1996	1309.37	2189.73	-	-	124.36	3623.41
	(36.14)	(60.43)			(3.43)	(100)
1997	1129.31	1890.60	-	-	148.71	3168.62
	(35.64)	(59.67)			(4.69)	(100)

Note : Figures in the parentheses denote percentage of the row.

When annual growth rate of programme income structure is decomposed, a disturbing picture emerges till 1993, with dependency on donors' contribution rising even as high as 93 per cent in 1993 compared to that of previous year (Table 6.2). The trend took a reversal since 1994 with 16 percent decline from the previous year and reaching to best year of 1996, when donors' contribution nose dived to a negative of 85 per cent from the previous year. It can be argued that the scene is not that irksome when growth rate of interest rate is taken into account as opposed to donation since there is a secular increase of interest income till 1993. But the growth rate of interest income shows a marked decline from 1995 and reaches a negative figure of 13.66 per cent in 1997. Similar trend is also noticeable in case of income from donation and government allocations. Therefore, the result can at best be summed as mixed, with a tilt towards dependency in terms of growth rate and efforts towards increasing income from interest at least in absolute terms.

Table 6.2: Annual Growth Rate of Programme-Level Income Structure (Mill Tk.)

Years	*Donation/Govt. Allocation*	*Interest Income*	*Internal Resources*	*Training Income*	*Others*	*Total*
1989	48.37	43.60	-	-	-	47.88
1990	36.06	42.01	-	-	-	36.61
1991	13.10	40.44	-	-	-	15.98
1992	33.97	48.71	-	-	-	35.85
1993	93.24	74.85	-	-	-	90.68
1994	-16.09	56.16	-	-	-	-6.86
1995	21.27	13.77	-	-	-	20.86
1996	-84.60	0.62	-	-	15.50	-66.41
1997	-13.75	-13.66	-	-	19.58	-12.55

Source : Table 6.1

Operating Expenses

A closer look at programme level operating expenses suggests that operating expenses in every head has increased due to expansion of coverage. If an item-wise expenditure comparison is made, the increase in staff cost appears to have elbowed out other sectors (Table 6.3).

Table 6.3 : Programme-Level Operating Expenses (Mill Tk.)

Category	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Staff Cost	48.08	121.17	170.84	268.62	389.19	579.74	587.72	708.83	663.4	931.75
Target Group	27.73	38.73	48.00	50.34	89.03	235.49	522.53	478.35	103.7	372.62
Training	24.6	63.28	79.36	60.45	44.58	47.86	46.21	39.07	42.8	25.3
Recurring Expenditure	44.08	104.29	157.14	187.86	292.81	539.19	1061.4	691.33	-	-
Head Office	-	40.2	50.41	91.96	153.36	300.93	570.97	-	-	-
Revolving Fund	67.2	30.76	1024.5	1278.1	2383.5	2827.8	3089.3	3471.9	1188.8	1012.34

Source: Various Annual Report

Increasingly, the GB is trying to allocate resources for developing productive target groups through providing training (Table 6.4). The trend growth rate may be assumed to be secular. The revolving fund remains almost stagnant from 1990 with little ups and downs.

Table 6.4 : Annual Growth Rate of Programme-level Operating Expenses

Category	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Staff Cost	152.02	40.99	*57.23*	44.88	*48.96*	1.38	20.61	-6.41	40.45
Target Group	39.67	23.93	4.88	76.86	164.51	121.89	-8.46	-78.32	259.32
Training	157.23	222.6	145.7	81.2	94.5	87.8	58.8	74	-2.80
Recurring Expenditure	136.6	256.5	326.2	564.3	1123.2	2307.8	1468.4	-	-
Head Office	40.2	25.4	128.8	2811.5	648.6	1320.3	-	-	-

Source: Various Annual Reports

Financial Efficiency

Financial efficiency is captured here through measuring cost of delivery, unit cost of coverage and break even interest. Table 6.5 shows that cost of delivery has not declined from the initial 1989 period, rather has increased to a peak of 0.76 in 1997. The unit cost of coverage has also increased over the years except for the last three years under study, leaving a negative mark on the financial viability of the programme.

Table 6.5 : Comparative Financial Efficiency Indicators

Category	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
A. Total Expenditure (mill Tk.)	211.69	398.43	1530.74	1937.3	3352.46	4830.99	5877.55	5389.49	1998.7	2342.05
B. Revolving Fund (mill Tk)	67.2	30.76	1024.49	1278.1	2383.49	2827.78	3089.27	3471.85	2651	1012.38
C. Number of Members (comula tive)	0.49	0.66	0.87	1.07	1.42	1.8	2.0	2.7	2.7	2.3
D. Cost of Delivery (B/A, in Tk)	0.32	0.08	0.67	0.66	0.71	0.59	0.53	0.64	1.11	0.76
E. Cost of Coverage (A/C, in Tk)	432.02	603.68	1759.47	1810.6	2360.89	2683.88	2938.76	1996.11	882.93	582.52

Source : Various Annual Reports and Balance Sheets

The estimates for break-even interest rates required for viability are computed on the basis of the following equation (Mosley, 1993):

$$r = \frac{i+a+p}{1+p}$$

where :

i = interest rate per unit of borrowed principal
a = administrative cost per unit of funds loaned out
p = default rate

The application of the equation to the GB data results in an average interest rate of 18 per cent (Table 6.6). Is this rate high or low or what implications does it have for financial efficiency ?

Table: 6.6 : Estimates of Break-even Interest Rate

Category	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
i	13.04	0.029	0.028	0.027	0.0326	0.040	0.0557	0.056	0.068	0.068
a	209.53	0.99	1.43	2.11	1.08	1.07	1.42	1.74	1.74	1.81
p	0.031	0.031	0.046	0.070	0.037	0.037	0.037	0.054	0.039	0.036
r	17.03	17.64	20.34	22.79	16.5	14.85	16.30	16.85	17.24	18.36

Subsidy Dependence

The subsidy dependence index can be calculated using equations of Yaron (1992). Subsidy (S) is defined as:

$$A(m - c) + \{(E * m) - p\}K$$

Where,

S = annual subsidy received by the programme

A = concessional borrowed funds outstanding

m = interest rate that the programme would be assumed to pay for borrowed funds if access to concessional borrowed funds was eliminated

c = concessional rate of interest rate actually paid on concessional borrowed funds outstanding

E = average annual equity

K = sum of all other subsidies received

Subsequently, the Subsidy Dependence Index (SDI) is estimated as:

$$SDI = \frac{S}{LP * i}$$

Where,

LP = average annual outstanding loan portfolio of the programme

i = average on-lending interest rate paid on loan portfolio of the programme

Table 6.7 shows that during the reported ten years GB has received an average annual subsidy of Tk 40 million. The trend is, however, disturbing as it shows a secular increase in absolute terms. In case of GB, the SDI estimate that an average increase of 100 percent in lending rate would have been required to eliminate all subsidies during the reported period.

Table: 6.7 : Estimates of Subsidy Dependence Index

Years	*A (Tk m)*	*M(%)*	*C(%m)*	*E (Tkm)*	*P (Tk m)*	*K(Tkm)*	*LP(Tk m)*	*I(%)*	*S(Tk m)*	*SDI (Tk m)*
1988	1413.52	8	6.5	14.63	1.17	0	1379.49	1.13	21.20	136
1989	2097.3	8	6.2	28.25	2.26	0	2217.46	1.12	37.75	152
1990	1855.3	8	6.7	38.75	3.10	0	1216.71	1.12	24.12	177
1991	2334.3	8	7.8	149	11.92	0	286.47	1.14	4.67	143
1992	3487.6	8	7.3	70.63	5.65	0	1845.75	1.15	24.41	115
1993	6593.8	8	7.5	122.38	9.79	0	3893.48	1.16	32.97	073
1994	9908.6	8	7.8	270	21.6	0	7700.08	1.17	19.82	022
1995	11115.9	8	7.5	185.88	14.87	0	8411.02	1.18	55.58	056
1996	12015.5	8	7.25	237.5	19	0	7793.15	1.18	90.12	098
1997	12429.4	8	7.25	187.5	15	0	6475.41	1.18	93.22	122

Source : Authors' calculation based on various annual and balance sheets.

6.2 BRAC

Income Structure

A closer look at the income structure of the BRAC's RDP programme reveals that the programme remains highly dependent on donors contribution at an average of 70 per cent of the total income (Table 6.8). The income from the programme emanating through interest remains stagnated at an average of about 11 per cent of the total income.

Table: 6.8 : Programme-level income structure

(mill tk.)

Years	*Donation Govt. Allocation*	*Interest Income*	*Internal Resources*	*Training Income*	*Others*	*Total*
1989	145.07	39.15	-	-	58.85	243.30
	(59.63)	(16.09)			(24.28)	(100)
1900	550.50	11.07	-	-	-	561.57
	(98.03)	(1.97)				(100)
1991	565.60	12.5	-	-	-	578.1
	(97.84)	(2.16)				(100)
1992	575.09	14.67	-	-	-	589.76
	(97.5)	(2.5)				(100)
1993	255.33	217.76	33.20	7.33	925.00	1438.62
	(17.75)	(15.14)	(2.31)	(0.51)	(64.29)	(100)

1994	1095.88	289.7	48.45	7.57	185.9	1627.5
	(67.34)	(17.80)	(2.98)	(0.47)	(11.41)	(100)
1995	821.52	395.71	9.57	11.14	380.59	1618.53
	(50.76)	(24.45)	(0.59)	(0.69)	(23.52)	(100)
1996	734.25	122.99	17.02	-	263.75	1138.01
	(64.52)	(10.80)	(1.49)		(23.18)	(100)
1997	922.17	183.11	2.26	-	128.07	1235.61
	(74.63)	(14.83)	(0.18)		(10.36)	(100)

Note: Figures in the parentheses denote percentage of the row.

Source : Various Annual Reports

When annual growth rate of programme level cost structure is decomposed, the donors contribution grew by 279.47 per cent in 1990 over that of the preceding year. After declining for three subsequent years, it is seen to have picked up again, reaching a record high of 329.24 per cent in 1994 (Table 6.9). For the next year the growth rate took a reversal and again increased only by 25.59 per cent in 1997. During the period 1991-1995, the annual growth rate of interest income was positive, registering record increase in 1993. From 1995, income from internal source shows a rising trend with a dive in 1996.

Table: 6.9 : Annual Growth Rate of Programme-Lev el Income Structure

(Percent)

Years	*Donation/ Govt. Allocation*	*Interest Income*	*Internal Income*	*Training Income*	*Others*	*Total*
1990	279.47	-71.72	-	-	-	130.81
1991	2.74	12.92	-	-	-	2.94
1992	1.68	17.36	-	-	-	2.02
1993	-55.60	1384.39	33.20	7.33	925.00	143.93
1994	329.24	33.04	45.93	3.27	-79.9	13.13
1995	-25.04	36.59	-80.24	47.15	104.73	-0.55
1996	-10.62	-68.92	77.85	-	-30.70	-29.69
1997	25.59	48.88	-86.72	-	-51.44	8.58

Source : Table 6.8

Operating Expenses

Head-wise yearly comparison of programme level operating expenses suggests that operating expenses in every head has increased due to expansion of coverage with some yearly

fluctuations (Table 6.10). The major share of operating expenses is devoted to target group. Staff cost and recurrent expenditures have taken significant shares of the operating expenses.

Table: 6.10 : Programme-level Operating Expenses

(mill Tk)

Category	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Staff Cost	18.12	29.14	28.40	86.77	299.86	307.23	421.39	142.01	170.73
Target Cost	39.45	49.1	56.20	85.62	536.1	511.4	518.3	42.33	38.92
Training	3.10	7.72	10.60	18.60	72.32	70.98	38.27	10.45	12.75
Recurring Expenditure	29.75	40.75	46.32	41.78	225.75	285.41	286.08	337.33	372.48
Head Office	7.33	14.1	17.04	14.10	43.8	40.16	41.18	14.91	18.47
Revolving Fund	115.5	121.54	121.54	121.54	243.79	168.3	269.27	580.02	593.74
Total	213.25	263.25	280.15	398.41	1421.53	1383.78	1604.49	1127.1	1207.09

Source: Various Annual Reports

The decomposition of annual growth rate of programme-level operating expenditure (Table 6.11) does not show any clear trend. It is assumed that the programme moves towards self-sufficiency, if the overhead cost shows a declining trend. In BRAC's case staff cost appears to increase monotonously almost every year till 1995, although expenses on head office shows a reversal from 1993. With some fluctuations, the recurrent expenditure demonstrates a secular growth trend.

Table: 6.11 : Annual Growth Rate of Programme-level Operating Expenses

(Percent)

Category	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Staff Cost	60.82	-2.54	205.53	245.58	2.46	37.16	-66.30	20.22
TargetGroup	24.46	14.46	52.35	526.26	-6.61	1.35	-91.83	-8.06
Training	149.03	37.31	75.47	288.82	-1.85	-46.08	-72.69	22.01
Recurring Expenditure	36.97	13.67	54.97	214.50	26.43	0.234	17.91	10.42
Head Office	92.36	20.85	-17.25	214.50	-8.31	2.54	-63.79	23.88
Revolving Fund	5.23	-	-	100.58	30.97	59.99	115.40	2.37
Total	23.45	6.40	42.24	256.80	-2.66	15.95	-29.76	7.10

Source: Table 6.1

Financial Efficiency

Table 6.12 which represents cost of delivery and unit cost of coverage shows that cost of delivery has remained almost same, at around 0.50, barring the successful period of 1993 -

1995 when cost of delivery went down to a low of 0.12. The unit cost of coverage shows a mixed trend, not indicating favourable trend in terms of financial efficiency.

Table 6.12 : Comparative Financial Efficiency Indicators

(mill Tk)

Category	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
A. Total Exp. (mill tk)	213.25	263.25	280.15	398.41	1421.53	1383.78	1604.49	1127.05	1207.09
B. Revolving Fund (mill tk)	115.5	121.54	121.54	121.54	243.79	168.3	269.27	580.02	593.74
C.Number of Members (cummul.)	0.20	0.35	0.46	0.65	0.80	1.2	1,08	1.5	1.8
C. Cost of Delivery (B/A,in tk)	0.54	0.46	0.43	0.31	0.17	0.12	0.17	0.51	0.43
D.Cost of Coverage (A/C,in tk)	1066.25	752.14	609.02	612.94	1776.91	1153.15	1485.64	751.53	670.61

Source : Various Annual Report and Balance Sheets

The estimates for break-even interest rate, computed on the basis of the Mosley (1993) equation, reaches an annual average of 30 per cent (Table 6.13). The implication is that to make the programme financially viable a minimum of 30 per cent rate of interest has to be charged from the borrowers.

Table: 6.13 : Estimates for Break-even Interest Rate(s)

Category	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
i	0.0145	0.0154	0.0158	0.0173	0.0146	0.0068	0.0075	0.0083	0.0078
a	1.3	2.5	3.28	2.71	1.43	0.57	0.62	1.45	1.61
p	0.02	0.050	0.070	0.051	0.050	0.029	0.028	0.06	0.06
r	38.5	39.47	39.25	40.67	23.16	16.99	18.5	22.25	24.75

Note : i=interest rate per unit of borrowed principal by the organization,
a=administrative cost per unit of funds loaned out
p=default rate

Source: Estimated based on various Annual Reports and Balance Sheets

Subsidy Dependence

The subsidy dependence index, measured by Yaron equation (1992) suggests that an average increase of 184 percent in RDP lending rate would have been required to eliminate all subsidies during the reported period (Table 6.14). This is a huge target to be achieved.

Table: 6.14 : Estimates of SubsidyDependence Index

Years	*A*	*M*	*C*	*E*	*P*	*K*	*LP*	*I*	*S*	*SDI*
	(tk m)	*(%)*	*(%)*	*(tk m)*	*(tk m)*	*(tk m)*	*(tk m)*	*(%)*	*(tk m)*	*(tk m)*
1989	120.73	8	5.08	343.7	28.38	0	1010.2	0.15	3.53	2.33
1990	312.22	8	6.09	393.4	31.47	0	1558.5	0.16	5.96	2.39
1991	487.7	8	6.95	604.6	48.37	0	1333.4	0.16	5.12	2.40
1992	649.0	8	7.01	731.4	58.51	0	1833.8	0.21	6.43	1.67
1993	847.6	8	7.26	1467.3	117.38	0	1485.5	0.21	6.27	2.01
1994	1252.0	8	7.43	2041.8	163.34	0	3006.6	0.19	7.14	1.25
1995	834.18	8	7.75	2112.4	168.99	0	805.8	0.19	2.08	1.36
1996	912.83	8	6.95	2342.3	187.38	0	3110.7	0.20	9.58	1.54
1997	1279.0	8	6.57	2072.2	165.78	0	5154.7	0.21	18.29	1.69

Source : Estimated based on various Annual Reports and Balance Sheets

*S=A(m-c)+(E*m=P)K*

Where,

S= annual subsidy received by the programme

A= concessional borrowed funds outstanding

M= interest rate the programme would be assumed to kpayfor borrowed funds if access to concessional borrowed

funds was estimated

C= concessional rate of interest actually paid concessional borrowed funds outstanding

E= average annual equity

K= sum of all other subsidies received

LP= average annual outstanding loan portfolio of the programme

I= average on-lending interest rate paid on loan portfolio of the programme.

$$SDI = \frac{S}{LPxi}$$

6.3 BRDB

Income Structure

A look at the income structure of the BRDB's RD-12 programme reveals that the programme remained totally dependent on government allocation and donors' contributions till 1993 with little variations (Table 6.15) in some years. The share of income from the programme started rising from 1993 and reached at its peak in 1996.

Table 6.15 : Programme-Level Income Structure

(mill Tk)

Years	*Donation/ Govt. Allocation*	*Interest Income*	*Internal Resources*	*Training Income*	*Others*	*Total*
1988	74.01	-	-	-	-	74.01
	(100)					(100)
1989	71.23	-	-	-	-	71.23
	(100)					(100)
1990	100.49	-	30.00	-	-	130.49
	(100)		(22.99)			(100)
1991	149.79	-	10.00	-	-	159.75
	(93.92)		(6.26)			(100)
1992	148.16	-	-	-	-	148.16
	(100)					(100)
1993	135.00	-	17.10	-	-	152.10
	(100)		(11.24)	-		(100)
1994	90.66	-	70.00	-	-	160.66
	(56.43)		(43.57)			(100)
1995	54.20	-	30.7	-	-	84.9
	(63.84)		(36.16)			(100)
1996	130.00	-	83.6	-	-	213.6
	(60.86)		(39.14)			(100)
1997	75.35	-	10.35	-	-	131.46
	(57.32)		(7.87)			(100)

Note : Figures in the Parentheses denote percentage of the row

When annual growth rate of programme level income structure is decomposed, the outside contribution shows ups and downs (Table 6.16). The internal resources shows an upward mobility till 1994, with its peak in the same year. For the latter three years, the trend is mixed, however.

Table 6.16: Annual Growth Rate of Programme-Level Income Structure

(Percent)

Years	*Donation/ Govt. Allocation*	*Interest Income*	*Internal Resources*	*Training Income*	*Others*	*Total*
1989	-3.8	-	-	-	-	-3.76
1990	41.08	-	-	-	-	83.2
1991	49.06	-	66.67	-	-	22.42
1992	-1.09	-	10.00	-	-	-7.26
1993	-8.88	-	17.10	-	-	2.66
1994	-48.91	-	309.37	-	-	5.63
1995	-40.22	-	-56.14	-	-	-47.16
1996	139.85	-	172.31	-	-	151.59
1997	-42.04	-	-87.62	-	-	-38.46

Source: Table 6.15

Operating Expenses

Head-wise yearly comparison of programme level operating expenses suggests that the major share has been appropriated by the staff salary (Table 6.17). The second largest share of operating expenses is devoted to target group coverage.

Table 6.17: Programme-level Operating Expenses

(mill Tk)

Category	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Staff Cost	13.75	20.71	39.68	40.8	43.144	43.18	40.12	49.10	48.00	44.00
Target Group	12.24	16.75	24.75	25.43	27.72	27.90	18.25	19.78	21.50	20.20
Training	2.87	3.97	11.24	12.40	27.91	27.75	15.32	9.25	12.60	15.00
Recurring Expenditure	10.75	12.22	21.20	27.78	28.73	18.10	15.75	21.40	15.90	16.26
Head office	1.75	2.00	8.96	8.74	8.36	3.5	3.00	2.75	3.24	3.6
Revolving Fund	14.6	10.99	15.19	29.1	19	15.53	22.70	47.68	27.96	25.7
Total	55.96	66.64	121.02	144.30	154.86	135.96	115.14	149.9	129.2	124.76

Although decomposition of annual growth rate of programme-level operating expenditure (Table 6.18) does not show any clear trend, the spending on staff has begun to decline from 1993. The recurrent expenditure also demonstrates almost a secular declining trend since 1993. This is an encouraging trend towards better financial management.

Table 6.18 : Annual Growth Rate of Programme-level Operating Expenses

(percent)

Category	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Staff Cost	`50.62	91.6	2.82	5.75	.092	-7.09	22.38	-2.24	-8.33
Target Group	-12.17	130.23	2.75	9.01	0.65	-34.59	8.38	8.7	-6.05
Training	38.33	183.12	10.32	125.08	-0.57	-34.59	-39.62	36.22	19.05
Recurring Expenditure	13.67	73.49	31.04	3.42	-37	-12.98	35.87	-25.70	2.26
Head Office	14.29	348	-2.46	-1.6	-58.13	-14.29	-8.33	17.82	11.11
Revolving Fund	-24.73	38.22	91.84	-34.8	-18.26	46.17	110.04	-41.36	-8.08
Total	16.99	81.60	18.20	8.26	-12.72	-14.81	30.19	-13.81	-3.44

Source: Table 6.17

Financial Efficiency

Table 6.19 which presents data on cost of delivery and unit cost of coverage shows that the unit cost of coverage has declined, almost steadily. This speaks of achieving of financial efficiency overtime. The cost of delivery has also remained stable at around 0.20, showing a leadership amongst the three programmes in terms of cost-efficiency.

Table 6.19 : Comparative Financial Efficiency Indicators

(mill Tk)

Category	***1988***	***1989***	***1990***	***1991***	***1992***	***1993***	***1994***	***1995***	***1996***	***1997***
A.Total exp. (mill tk)	55.96	66.64	121.02	144.30	154.86	135.96	115.14	149.9	129.2	124.76
B.Revolving Fund (mill tk)	14.6	10.99	15.19	29.146	19.00	15.53	22.75	47,689	27.96	25.7
C. Number of Members (cum.)	0.12	0.15	0.20	0.29	0.35	0.43	0.45	0.45	0.48	0.44
D. Cost of Delivery (B/A,in tk)	0.26	0.16	0.11	0.20	0.12	0.11	0.20	0.32	0.22	0.21
E. Cost of Coverage (A/C,in tk)	474.67	444.27	605.1	493.28	442.46	314.33	267.81	333.11	269.17	283.55

Source: Various Annual Reports and Balance Sheets

The estimates for break-even interest rate, computed on the basis of the Mosley (1993) equation, finds an annual average of 20 per cent (Table 6.20).

Table 6.20 : Estimates for Break-even Interest Rate

(percent)

Category	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
i	0.045	0.050	0.047	0.039	0.015	0.073	0.024	0.067	0.032
a	1.37	1.23	1.29	1.596	1.596	3.15	2.21	2.087	1.23
p	0.06	0.02	0.025	0.047	0.056	0.07	0.072	0.03	0.04
r	16.03	18.60	18.92	19.56	23.49	23.04	24.05	22.52	18.09

Source: Authors' Calculation based on BRDB Documents.

Note: i= interest rate per unit of borrowed principal by the organization,

a=administrative cost per unit of funds loaned out

p=default rate

r=break-even interest rate

Subsidy Dependence

The subsidy dependence index, measured by Yaron equation (1992) suggests that the BRDB has received an annual subsidy of 10 million Taka per year (Table 6.21). Thus on most counts, the BRDB programme tends to demonstrate relatively better possibilities to survive compared to either GB or the BRAC programme.

Table 6.21: Estimates of Subsidy Dependence Index

Years	*A (tk.m)*	*M (%)*	*C (%)*	*E (tk.m)*	*P (tk.m)*	*K (tk.m)*	*LP (tk.m)*	*I (%)*	*S (tk.m)*	*SDI (tk.m)*
1988	1098.8	8		6	2.43o.19	0	841.18	0.134	21.98	19.5
1989	344.21	8	7.5	7.83	0.63	0	70.42	0.1205	1.72	20.27
1990	358.24	8	7	10.20	0.82	0	129.61	0.135	3.58	20.45
1991	343.81	8	7.5	17.20	1.38	0	44.19	0.148	1.72	26.30
1992	1054.0	8	7	8.7	0.70	0	261.16	0.11	10.54	36.69
1993	1168.0	8	6.5	3.45	0.28	0	379.22	0.12	17.52	38.5
1994	1369	8	6.4	3.02	0.24	0	448.03	0.13	21.90	37.6
1995	2929.3	8	39.9	3.19	0	108.82	0.15	5.86	35.9	35.9
1996	1442.0	8	7.5	3.02	0.24	0	147.79	0.16	7.21	30.49
1997	226.09	8	7.5	2,05	0.16	0	10.86	0.16	0.58	33.37

Source: Authors' Calculation based on BRDB Documents

S=A(m-c)+E*m)=P)K

Where,

S=annual subsidy received by the programme

A=concessional borrowed finds outstanding

M=interest rate the programme would be assumed to pay for borrowed funds if access to concessional borrowed

Funds was estimated

C=concessional rate of interest actually paid on concessional borrowed funds outstanding

E=average annual equity

K=sum of all other subsidies received

LP=average annual outstanding loan portfolio of the programme

I=sum of all other subsidies received

$$SDI = \frac{S}{LP*I}$$

6.4 Factors Underlining the Differences in the Efficiency of Operation of the MFIs

Before concluding this Chapter, some comments are warranted as to why there are under-MFI differences on their operating costs. More importantly, it is also necessary to provide some explanations as to what are the factors underlying the overall efficiency of the various MFIs as indicated by their financial effiiciency indicators. These issues are briefly highlighted below:

Trends in unit costs per member and the costs of delivering credit provide indicators of financial efficiency and potentials for longterm viability of the different programs. For Grameen Bank, cost of delivery has not declined from the initial 1989 period, rather, it has increased to a peak of Table 1.1 in 1996 and the cost of coverage has shown gradual upward trend till 1996. These indicators suggest that the program is not in a position to cover its costs by the interest rates that GB is charging to its borrowers, leaving a sustained injury to the programs long term financial viability.

In comparison to GB, the BRAC's programs shows a relatively strong position in terms of cost of delivery and cost of coverage. In recent years, the cost of coverage shows a declining trend, while cost of delivery was impressure in 1993-1995 period, showing a sign of financial viability. However, it is to be noted that interest incomes are unable to offset administrative costs associated with the delivery of credit.

In case of BRDB's RD-12 program, the cost of delivery shows an expected sign, being the lowest and hence the most viable amongst the tree programs in terms of cost efficiency:

The overall results of our analyses suggest that the MFIs need to redesign their programmes in order to cover their costs of operation through interest incomes received from the borrowers. This can be approached in two ways: (a) increasing the interest rate and (b) improving the administrative efficiencies. Resorting to the first alternative nay drive out the

borrowers, because of increased cost of borrowing. This would also put on further barrier to the access to the credit facilities by the poorest of the poor, who allegedly are still outside the ambit of the MFIs. Secondly, this may lead to rise in the rate of defaults. Therefore, it appears that the MFIs require to resort to the second option, i.e., restructure their administrative style and operation in order cut down costs and improve efficiencies so that they could remain viable, even without the subsidies that they are currently enjoying.

Another financial efficiency issue which receives serious policy attention is the high interest rates charged by the MFIs from their borrowers; the question often raised : Is lending to the poor inherently more costly ? Or are there inefficiency in the operation of the programs ?

This is an area which calls for continued research with analytical rigour. The analysis carried out by the present study of cost structure, subsidy dependence and break-even interest rate does not show optimistic results, leaving the question of the issue of long-term viability of lending to the poor persons unresolved. One way of approaching the problem is to reorient the MFIs to act as independent profit maximisers so that the marginal cost of additional loans remains below marginal revenue. Transformation of MFIs into profit maximizing entities is not plausible due to income structure of their target groups, because the poor borrowers in that case may have to pay much more to obtain credit from the MFI, though economically this may be justifiable.

Another way of addressing the problem of high break-even interest rate is to look at the administrative and operational structure of the MFIs and to probe into the operations of the programs to see whether the programs are mired by administrative inefficiencies.

The second line of enquiry might be to find out whether there exists any correlation between small average loan size and administrative overheads, resulting in a high cost of delivery, putting strain on the financial viability of the program itself and giving rise to higher interest rate charged to borrowers in order to offset the cost of delivery.

Chapter 7

SUMMARY OF MAJOR FINDINGS AND SUGGESTIONS FOR FURTHER RESEARCH

7.0 Introduction

The credit programmes implemented by various MFIs have been expected to achieve notable results, if not spectacular success, in alleviating rural poverty by putting a break on the reign of the moneylenders as lack of access to resources is thought to be a critical factor underlying widespread poverty. The village moneylender has a comparative advantage in small-scale lending. Especially three problems – returns to scale, adverse selection and moral hazard – allow the village moneylenders to maintain monopoly in the rural credit market. The group based lending model, pioneered against such backdrop, addresses moral hazard and adverse selection. Moral hazard is done away with through peer monitoring while adverse selection is addressed through the process of selection of borrowers as the members are highly selective about who they will join with. Importantly, choosing candidates for loans and monitoring the progress of repayments are all done by the group members themselves, not directly by officials of MFIs. Moreover, there is a strong incentive (conditionality!) attached to the group to help each other out as members of the group can only get loans if other members succeed in investment, meaning keeping the repayment schedule regular without default.

7.1 Economic Impact

Credit is seen as a critical element in poverty alleviation, though credit as a sufficient condition requires rigorous scrutiny and yet to obtain verdict in its favour. Nevertheless, it is argued that credit demonstrates a three-pronged role: firstly, as an input to generate employment; secondly as instrument to augment productivity; and thirdly as a mechanism of technology adaptation.

The analysis in the previous chapter has shown that there is a shift towards self-employment from farm-employment, which may be attributed to programme intervention. This may also be seen as an indicator of change in favour of productive employment as agricultural activities in Bangladesh is mired by low productivity and underemployment.

The interventions have succeeded in infusing savings habit among the poor, no mater how small the amount is.

A before-after comparison of asset holding by the group members made in the previous chapter does not reveal any dramatic shift in the command over resources, especially in terms ownership of fixed assets. The table below demonstrates that the retained earnings are low. Perhaps, the sector they have chosen to invest lacks economies of scale. The rate of return is so minimal that they hardly are able to invest in fixed assets like structures for their business.

Table 7.1: Impact of Retained Earnings on Fixed Assets

Indicators	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Percentage of H/H having own land for business	5.7	28.6	45.7	25.7	-
Means of acquiring land	-	-	-	-	-
1.Own savings (%)		37.5	35.7	40	-
2. Loan from MFI (%)	100	12.5	7.1		-
3. Others (%)		50.0	57.2	60.0	-
% of H/H own structure of the Business House	8.6	37.1	17.1	20.0	2.9
Average monthly income from NFA (Tk.)	1580	2700	2944	2563	880

Source: Field Survey, 1998

7.2 Impact on Human Resource Development

It is desirable that the cost-effectiveness of poverty focussed programmes is assessed in terms of both direct and indirect benefits accruing to the participants. The analysis in chapter 6 indicates that these programmes are so highly subsidised that their sustenance may be in serious doubts, if subsidy is withdrawn. But, it is argued that subsidy is not to be restricted to its strict economic connotation, rather it is to be viewed from whom it benefits. The pertinent questions are: Does the subsidy reach to the poor? Does subsidy go to educate the programme participants? Does the subsidy go to improve their environmental and reproductive health? It is observed that if the answers to these questions are found to be positive, it is justified on the ground of social welfare as lack of human capital and social opportunities are critical determinants of pervasive poverty. The present analysis is not primarily geared towards examining the issue of subsidy-welfare trade off, but looks at the intra-household impacts of credit programme on education, sanitation and environmental health and reproductive health.

The impact on human capital, summarised in Table 7.2, exibits a positive correlation when compared against control village. The indicators such as literacy, children's schooling,

use of sanitary latrine etc. signals a positive spillover effect in contrast to non-programme village. The health and reproductive indicators do not bear out any clear picture.

Table 7.2: Welfare Impacts of Credit Programmes on the Survey Households

Welfare indicators	*GB*	*BRAC*	*WFP*	*BRDB*	*Control Village*
Average uneducated member per H/H (person)	2.2	2.1	2.4	1.5	3.4
Average Total Educational Expenses per H/H	3446	4168	3888	4826	2116
Average Expenses for food per H/H (Taka)	1714	2025	2955	2457	2189
Percentage of H/H owning Hand-pumps	65.7	22.9	80.0	74.3	31.4
Percentage of H/H using Sanitary Latrine	54	62	88	77	6
Percentage of H/H adopting Family planning	62.9	68.6	88.6	77.1	65.7
Place of birth of Children: House (%)	94.5	100.0	97.0	95.5	99.1
Percentage of population breast feed	96.8	99.0	97.7	97.3	100
Average age at first marriage	16.5	16.6	16.7	17.6	18.4
Average number of children per H/H	1.7	2.0	2.5	2.4	1.9

Source: Field Survey, 1998

7.3 Programme-level Financial Viability

The issue of programme-level financial efficiency is captured through examining the income and operating structures, measuring cost of delivery, unit cost of coverage and break even interest.

In case of Grameen Bank, the cost of delivery has not declined from the initial year1989, rather has increased to a peak of 1.11 in 1996 (Table 7.3). The unit cost of coverage has also increased over the years, leaving a negative mark on the financial viability of the programme. In BRAC's RDP, the cost of delivery has remained almost stable at around 0.50 barring the successful period of 1993 - 1995 when it went down to a low of 0.12. The unit cost of coverage shows a mixed trend, not indicating favourable trend in terms of financial efficiency. The unit cost of coverage of RD-12 programme of BRDB shows clear declining trends demonstrating a sign of financially efficiency. The cost of delivery has also remained stable at around 0.20, exibiting a leadership position amongst the three programmes in terms of cost-efficiency.

The application of break-even interest rate, computed on the basis of the Mosley (1993) equation, to the GB data results in an average interest rate of 18 per cent while the interest rates computed for BRAC and BRDB comes out to be 30 per cent and 20 per cent respectivesly.

In case of GB, the SDI estimate, measured by Yaron equation (1992), suggests that an average increase of 100 percent in lending rate would have been required to eliminate all subsidies during the reported period while an average increase of 184 percent in RDP lending rate is required for BRAC. The subsidy dependence index, measured by Yaron equation (1992) suggests that the BRDB has received an annual subsidy of 10 million Taka per year.

Table 7.3: A Comparison of MFIs on the Basis of Financial Efficiency Indicators

Indicators of Financial Efficiency	*MFIs*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
ivery	GB	0.08	0.67	0.66	0.71	0.59	0.53	0.64	1.11	0.76
	BRAC	0.54	0.46	0.43	0.31	0.17	0.12	0.17	0.51	0.43
	BRDB	0.16	0.11	0.20	0.12	0.11	0.20	0.32	0.22	0.21
Break-even Interest Rate	GB	17.64	20.34	22.79	16.5	14.85	16.30	16.85	17.24	18.36
	BRAC	38.5	39.47	39.25	40.67	23.16	16.99	18.5	22.55	24.75
	BRDB	16.03	18.60	18.92	19.56	23.49	23.04	24.05	22.52	18.09
Subsidy Dependence Index	GB	1.52	1.77	1.43	1.15	0.73	0.22	0.56	0.98	1.12
	BRAC	2.33	2.39	2.40	1.67	2.01	1.25	1.36	1.54	1.69
	BRDB	20.27	20.45	26.30	36.69	38.5	37.6	35.9	30.49	33.37

Source: Estimated from various annual reports of the respective organisations

7.4 Impact on Poverty Incidence

It is desirable to conduct investigation into the impact of the credit programmes on poverty incidence with requisite samples. But as noted earlier, since the present study rests on a very small size of sample, it uses secondary sources of data to comprehend the incidence of the credit programme on poverty. The impact of Grameen Bank, BRAC and RD-12 programmes on poverty incidence is reported in Table 7.4. The overall results suggest a positive impact in reducing poverty in the programme areas. The incidence of moderate poverty is reported to be lower in Grameen Bank (62 per cent in programme village compared to 72 per cent in control villages) and BRDB RD-12 (64 per cent compared to 67 per cent amongst non-participants).

A large majority (60 per cent) in these villages lives in poverty despite programme interventions. This suggests a narrow coverage within the programme area and/or these are constrained to adequately address the dynamics of the underlying poverty process (CPD, 1995). Despite the success and rapid growth of poverty alleviation programmes both by the government and NGOs, the extent of such interventions is yet to attain a critical mass to be able to create a perceptible improvement in the poverty scene in Bangladesh (Mujeri, 1997).

Table 7.4: Impact of Credit Programmes on Poverty Incidence

Credit Programme	*Incidence of Moderate Poverty (%)*		*Incidence of Extreme Poverty (%)*		*Severity of Poverty*		*Annual Reduction Rate of Moderate Poverty among Participants (%)*
	Participant	*Non-participant*	*Participant*	*Non-participant*	*Participant*	*Non-participant*	
Grameen Bank	62	72	10	17	Less	--	4
BRAC	70	67	14	16	--	--	1
RD-12	64	67	--	--	Less	--	6

Note: Moderate poverty refers to a minimum intake 2121 k.cal. per capita per day while extreme poverty designates 1805 k.cal/capita/day.

Source: Khandker and Chowdhury (1995)

Cost-Effectiveness of Transfer-mode Operation

FFEP is the fastest growing safety net programme, accounting for 43 per cent of the primary education budget in 1997-98 Annual Development Programme (ADP). Analyses have shown that FFEP has augmented enrolment almost by four times and has been found to be the most cost-effective safety net programme in its impact, although the issue of targeting has remained biased and thus imperfect to a considerable extent..

The FFEP has increased enrolment and attendance, but failed to make headway as regards to two critical quality indicators – drop-out rate and repeaters. When sustainability is considered, these two indicators leave room for greater improvements suggesting drastic redesign of the programe. Especially, better targeting is urgently required.

A pertinent issue that warrants attention at this point is – are these programs replicable in wider areas and what are their linkages potentials with macro interventions ? The socio-economic benefits and linkage potentials of the micro-credit interventions are noteworthy and replicable on many grounds. However, their replication in wider areas needs to be preceded by important changes and modifications. These issues are discussed below at some length:

First, the micro-finance programs receive widespread acclaim for lending to the poor without collateral through group-based approach. This group-based lending approach is seen as successful credit regime in rescuing the poor from the exploitation of the rural money lenders and failure of the government-managed formal lending institutions to reach the poor.

Second, the programs have impacted positively on the borrowers' socio-economic conditions and human resource development variably as evident from the survey results. It

also has acted favourably in terms of employment generation, no matter with what modest changes in their retained incomes and ownership of fixed assets.

However, these programs have not been impressive in terms of their financial sustainability as they appear to continue to be heavily dependent on grants received from the donors. Moreover, the other financial efficiency indicators such as cost of delivery, unit cost of coverage and break-even interest rate etc. do not show encouraging signs in terms of long-run financial viability. For any form of replicabity, it is vital to redesign the programs in a manner so that administrative overhead can be slashed down without affecting the low rate of default. This calls for careful examination of size of loan and operational structure in order to avoid/minimise administrative deficiencies.

Further, the strong focus on micro-credit may pose special problems in reaching the poorest. Group lending may excluded the poorest because they represent too big a risk to a group or because they may not have the skills required participate in the group. Land-based target's may not ensure that MFIs reach the poorest. These include constraints faced by the poorest themselves, such as lack of initial savings to participate in group meeting. Avoiding minimizing group risks also creates incentives for the groups to exclude the most risky participants.

Apart from the poorest, these MFIs, as evident from the field visits, also exclude other two types of potential borrowers - the 'missing middle', i.e. the low-income farmers in terms of both land and ownership of non-land assets, who do not qualify for micro-credit and are also unable to obtain formal credits. These potential borrowers who belong to both agriculture and non-farm occupations, are ineligible for micro-credit, because they own more than 0.5 acres of land, but are not wealthy enough to weild influence among the institutional lenders.

These considerations suggest a market segmentation of the rural borrowers and also perhaps growth of specific types of MFIs needed to cater to different segments of the market with financial prudence. Thus, apart from the marginal landowners and the landless who are being catered by MFIs, it is required to bring the poorest and endigent into the fold of the MFIs. Theoe who are now remaining outside the ambit of MFIs need to be provided with motivation to be able to join the credit groups, skill development training and safety net programmes.

Finally, any redesign of such programs should take cognisance, of the size of the loans and issues relating to operational and financial efficiency. In addition, attempts may be made to design special government-run programs to cover the poorest of the poor and other

disadvantaged groups, i.e. female-headed household as second best solutions to ensure wider coverage and supplement the MFI interventions.

7.5 Emerging Concerns: Need for Further Investigation

The following areas, which remain outside the scope of the present study, have emerged during the course of the field visit and analysis of the survey results, indicating further research for ascertaining the sustainability of these alternative poverty alleviation programmes.

The Micro-Macro Mismatch

Despite repeated assertions by the MFI's of their success stories and increase in coverage, the rate of decline in national poverty remains modest. This leads to questions: why have not benefits of micro credit channelled to macro levels? Is the paradigm in crisis?

Multiple membership

A recent BIDS study on PKSF-MES reveals that members in 16 per cent of the participant households enrolled in more than one NGOs. Is the cost of borrowing (high interest rate charged by MFIs) pushing the borrowers to become members of multiple MFIs in order to maintain repayment schedule? Is it because that the size of the loanable amount is too meager to start even a small productive venture?

Issue of Graduation

The issue of graduation of the members has surfaced as a second generation problem of the micro-credit based programmes. As evident from the Table 7.4, the micro-credit has not been able to make perceptible changes among the rural poor in relation to the number of poor. It is seen that a large number of borrowers have failed to retain earnings, increase savings and investment, and continue to depend on fresh loans as they failed to increase investible surplus. A recent BIDS Survey (1998) indicates that only eight out of 85 per cent of once borrowers are not currently borrowing. This suggests the need for a detailed investigation into the borrowers' sustainability on longitudinal basis.

Informal Credit Market Persists

Contrary to common perception, the BIDS survey reveals that more than 40 per cent of sample households in programme villages and about 56 per cent of those in control villages had borrowed from sources other than NGOs and the organised sector. Is it because of the very insignificant amount available as loans from the MFIs? Is it because of high interest rate charged by MFIs? The BIDS survey claims that the interest rates charged by the local moneylenders, though high, are still significantly lower than those charged by MFIs. This suggests that the interface between MFI lending and that by the informal financial market demands more rigorous probing.

Graduation and Repayment Schedule

During field investigation, some MFI participants observed that the impractical repayment schedule is inhibiting their graduation and making them dependent on the MFIs. The question that arises and requires rigorous analysisis: Do the borrowers pay out of current income? Are the participants able to use their loans in productive ventures with such pressing demand for repayment?

Who are growing?

Across the board it is acknowledged that the rate of interest is high. Indeed the analysis of the programme level financial viability shows that the MFIs need to keep higher rates of interest in place to remain financially viable. The question remains: How would one term them financially viable if they continue to charge such exhorbitant interest rates which are higher than the commercial lending rates? Is there any institutional constraint which requires the MFIs to charge such high interest rates? These issues are critically important and need to be put under rigorous investigations through further research, based on adequately large samples of respondents.

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